NATIONAL MUNICIPAL REVIEW

PUBLISHED MONTHLY BY THE

National Municipal League

VOL. XVI, No. 2 FEBRUARY, 1927 TOTAL No. 128

CONTENTS

DEPARTMENTS

THE LEAGUE'S BUSINESS

Some Unsolicited Kind Words.—So much of the work of the central office of the League seems routine and undramatic. There are more than 15,600 municipalities in the United States, and on mornings when the mail is high on our desks it seems as if they all had conspired to test our resources by shooting us inquiries on every topic of government.

One way to acquaint the members with the nature of our work is to pass on from time to time some unsolicited expressions received from those whom we try to serve. The four below were selected pretty much at random from recent correspondence.

The first is from a teacher of government in a state university:

I am taking this opportunity of thanking you for the helpful correspondence I have had with you in compiling the bulletin and package library on the short ballot.

The second is from the land commissioner of Canton Municipality, China:

The pamphlets you mailed me have all proved to be a mine of information and I wish to take this opportunity to thank you for your trouble. I am looking forward to having your kind coöperation from time to time in the future.

The third is from the chairman of a committee to devise a county charter:

I wish to thank you for your kindness in sending me so promptly the data regarding county government.

The fourth is from an officer of a board of trade and relates to an address on city charters delivered by a representative of the League:

I wish again to tell you how much I enjoyed your talk and tell you how generally the people who heard you were interested.

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Change in Director of Municipal Administration Service.—George H. McCaffrey was scarcely settled in his new post as director of the Municipal Administration Service, being operated by the League in coöperation with the Governmental Research Conference, when an opportunity at a much larger salary and with a bigger organization presented itself; and under the circumstances there was nothing to do but to advise him to accept. The governing committee therefore considers itself fortunate in having prevailed upon Russell Forbes, who had been serving as lecturer in municipal government at New York University and assistant of the National Association of Purchasing Agents, to fill the breach.

Mr. Forbes began work on January 15. He brings to it a thorough training in municipal government and an exceptional record of organization building on behalf of the associated purchasing agents.

*

Two Important Committee Reports.—The report on a model system of registration for elections, published as a supplement to the January REVIEW and the draft of a model municipal bond law, appearing as a supplement to this issue, were in great demand even before they were off the press. Through the kindness of Honorable Morton D. Hull we were able to manufacture an excess supply of the report on registration, and through the kindness of the chairman of the municipal indebtedness committee, Mr. Carl H. Pforzheimer, we have been able to do the same for the model bond law. Both subjects are this winter before the legislatures of a number of states. We are proud of the reports, and feel that they will be of marked influence.

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EDITORIAL COMMENT

In 1728 the Pennsylvania Assembly, which had been meeting in the Court House in Philadelphia, requested the Governor and the Council to provide another meeting place, because of "indecencies used towards members of the Assembly" where it had been sitting. Disrespect for legislatures seems to be born in us.

*

It now seems doubtful if the petition for the recall of Governor Hartley of Washington will ever be filed. The plan to secure 100,000 signatures by December 1 (80,000 are necessary to demand a recall election) has not worked out. The issues in the Hartley-Suzzalo fight, involving a fundamental difference of opinion regarding the relation of the public educational system to the state government, were cogently set forth by Chester C. Maxey in last month's REVIEW.

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In the election last fall in Omaha, a young radio broadcaster was elected municipal judge over an opponent who was backed by a strong political organization. The broadcaster had no organized support whatever and was able to carry on his campaign without expense through capitalizing his popularity with the radio audience. Doubtless by this time the broadcasting stations have been deluged with applications from would-be announcers with political ambitions.

*

Former Governor Harry L. Davis is circulating petitions for a popular referendum upon the abolition of Cleveland's City Manager-P. R. Charter. If sufficient signatures are secured the matter will probably come to a vote next spring. Davis was three times elected mayor of the city, and it is generally believed that he is taking the present step as a method of establishing himself as undisputed leader of the Cleveland Republican machine.

*

The American Political Science Association held its twenty-second annual meeting at St. Louis, December 28 to 30. The mornings were devoted to round tables, and the remaining sessions to prepared papers and addresses. A feature of the meeting was the presidential address by Dr. Charles A. Beard on "Time and Creative Thought in Political Science." Dr. Beard received a great ovation from his many friends and admirers in the Political Science Association.

*

Politics Boiling in Toledo

However it may appear to the initiated, the average citizen of Toledo finds himself bewildered by

recent activities of Mayor Mery, particularly with respect to the dismissal of William T. Jackson from the position of service director. Mr. Jackson possessed an enviable record in that position, being the author of the Toledo city plan and the administrator of an excellent public works program.

In 1925 Walter F. Brown, chairman of the joint committee (of blessed memory) dealing with the reorganization of the federal administration, and the head of the local Republican organization, is said to have assured Jackson that he would be continued in office in return for Jackson's promise not to run for mayor. Jackson was then a strong favorite, actively supported by all three newspapers of the city. But events proved that he could not get along with the mayor, whom he accused of playing politics, and during Brown's absence from Toledo, the mayor dismissed him.

In spite of strong popular disapproval, Mayor Mery stuck by his guns, and, after some difficulty in finding a successor, transferred the finance director, William B. Guitteau, to the post of service director. Whether Brown approves the mayor's action is unknown. On the surface it would seem that Mayor Mery has defied Brown, who has thus been placed in the position of one who could not make delivery of preëlection promises. Some, however, suspect that the whole transaction has been engineered by Brown to rid himself of Jackson, who enjoys a large personal following.

The result to date is a renewed effort to secure a city manager for Toledo, and it seems probable that the plan will be voted on next summer. Mayor Mery came to his office without any experience in administration (he had been operating a corner drug store), and the present situation is further evidence of the shortcomings of elected mayors when they are called upon to take charge as executive head of a large operating organization.

*

Financing Seattle's Street Railways

Seattle's municipally owned street railway is again in financial difficulty. Last fall it was compelled to go on a warrant basis due to its inability to meet obligations in cash. To enable the railway to tide over its present difficulty, an ordinance providing for a loan of $135,000 from the light department to the municipal railway department has been passed; but it faces the prospect of a test suit by a committee of taxpayers. In the meantime the mayor, Bertha K. Landes, has announced that there was never so much reason for optimism in railway affairs as there is today, and has called upon the citizens to refrain from involving the railway in litigation at this time. The mayor's optimism arises from the prospect of reduction in operating expenses through the purchase of modernized equipment which is estimated will save the city $300,000 a year.

D. W. Henderson, general superintendent of the railway, has issued a statement calling attention again to the heavy burden resting on the street railway by reason of its obligation to pay the entire purchase price of the system out of income in twenty years, something which no privately owned road has ever been able to do. In order to ameliorate this condition Mayor Landes has submitted to the Stone and Webster officials in Seattle a proposal for the revision of the purchase contract which will extend the time of the purchase bond and thus reduce the annual debt charges. The *Electric Railway Journal* states that the mayor's suggestion will probably be accepted provided that it can be

done without affecting the priority of the claim of the bonds.

There seems to be little ammunition for either the friends or enemies of municipal ownership in the experience of Seattle as far as operation is concerned. Again, however, has the gravity of her original mistake in paying the price she did for the properties been impressed upon her. The kindest possible interpretation of the purchase price is that a shrewd seller met an innocent and anxious purchaser, with the usual economic results.

*

City Manager Charters Adopted and Rejected in 1926

During the calendar year 1926 the manager plan continued to lead the procession of new charters adopted. No less than eleven cities, with a total population of 193,051, decided to assume the new form of municipal government. They range from Maine to California, and from Wisconsin to Oklahoma.

The following table tells the story:

City	*State*	*Population*	*Date of Charter Adoption*
Edmund	Oklahoma	2,452	March
El Reno	Oklahoma	7,737	April
Hamilton	Ohio	39,675	November
Ludlow	Vermont	2,110	November
Newton	Kansas	9,781	August
Oklahoma City	Oklahoma	91,295	November
Plant City	Florida	3,720	June
Porterville	California	4,097	December
Rhinelander	Wisconsin	6,654	March
Rumford	Maine	8,576	April
Salisbury	North Carolina	13,884	August
Windsor	Vermont	3,061	April

In addition to the above, the citizens of Newport, R. I., by an overwhelming vote expressed a preference for a manager charter drafted under local auspices. This charter must, however, be enacted by the legislature before it becomes legally binding. The Hamilton, Ohio, charter, drafted by Dr. A. R. Hatton, includes P. R.

Several cities, including Atlanta, Ga., Petersburg, Fla., and Warren, Ohio, voted in favor of drafting a city manager charter to be presented later for the approval of the voters. A charter commission in Tacoma, Wash., is talking of preparing two charters, one a city manager charter and the other an improved commission plan charter, for submission to the electorate.

Eleven cities rejected the city manager plan at the polls. These include Minneapolis, Sioux Falls, S. D., and Lakewood, Ohio. Seattle is also counted in this group, although the city manager charter voted on was one in name only, and its defeat is rightfully counted as a victory for the serious supporters of city manager government.

Aside from the intrinsic merits of the city manager form of municipal organization, there are several valuable by-products of a city manager charter campaign. Chief of these is popular education regarding the proper place of the professional as contrasted with the popularly elected amateur in the administration of city services.

As noted on page 43 of the January REVIEW, Santa Barbara, Calif., abandoned manager government on November 15, in favor of a mayor and council charter. The new charter becomes effective June 1.

Auburn, N. Y., which has operated under city manager government since 1920, voted on November 2 to draft a new mayor and council charter. Whether such charter when drafted will meet the approval of the voters remains to be seen.

*

Some Figures on Cost of Public Education

Expenditures for primary and secondary education, that is for public grammar and high schools, in the United States since 1900 have increased sevenfold, while the popula-

tion during the same period has increased only by about half. This is due in part to the substantial extension of the public school system and the increase in educational opportunity offered, and in part to higher teachers' salaries and increased cost of equipment and maintenance, according to a study made by the National Industrial Conference Board.

In 1900, $214,965,000 constituted the annual budget for primary and secondary schools; but by 1924 the support of grammar and high schools had mounted to $1,820,743,000, an increase of 747 per cent. This is the equivalent of an expenditure of $2.83 per capita in 1900, and of $16.25 per capita in 1924, an increase in per capita expenditure of 474 per cent. Taking into consideration the decrease in the purchasing power of the dollar during the twenty-four years (as nearly as it can be measured in application to school expenditures), an increase in expenditure per capita of about 200 per cent is revealed between 1900 and 1924.

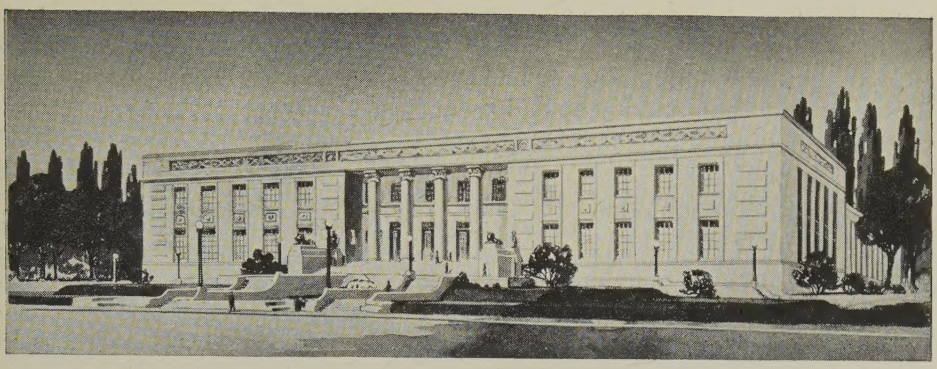
While the above figures are reduced to per capita cost, some statistics recently prepared by the research division of the National Education Association relate elementary and high school costs to income. On this basis North Dakota pays more for education (5½ per cent of income) than any other state; and Arkansas the least (1⅔ per cent of income). South Dakota is next to North Dakota in the upper level with a rate of 4⅓ per cent, while Minnesota is third with expenditures of 4⅙ per cent of income for education. In the lower level Georgia spends slightly more than Arkansas; and Rhode Island but slightly more than Georgia. It is interesting to note that the National Education Association ranks the states highest which spend the most for education, evidently on the assumption that the important thing is to spend the money and that the efficiency with which the expenditure is made takes care of itself.

The department of commerce is the third agency which has recently added its quota to the symposium on education costs. Its figures are particularly interesting because of the comparison with other departments of municipal government. In the 247 cities having a population of over 30,000, payments for the operation and maintenance of the schools during 1925 represented 37½ per cent of the total expenditures for the maintenance and operation of all general departments. Of the funded debts of these cities for general purposes, the school debt represented slightly less than 30 per cent of the total.

According to Mr. Hoover's department, the per capita cost of public schools in 247 cities in 1925, including interest on debt, was approximately $15, compared with the per capita figure of $16.95 for 1924 for the country at large, arrived at above by the National Industrial Conference Board.

As would be expected, the rich states afford their schools heavier financial support than the poor states, and according to the National Education Association, the general level of the educational attainments of the people of the rich states is higher than that of the people in the poor states. The people of the United States spend almost two billion dollars a year for tax-supported elementary and high schools, or 2¾ per cent of the annual income.

The tremendous increase over a period of twenty years is not difficult to explain, and the people of the country as a whole approve of it. Signs are not wanting, however, of a growing sentiment that school funds are not being administered with the greatest wisdom and economy.



BUFFALO'S NEW MUSEUM DEDICATED TO NATURAL SCIENCES

BY RUTH V. WEIERHEISER

The educational influence of this building, built from proceeds of a municipal bond issue, will be tremendous. :: :: :: :: ::

When the Buffalo Society of Natural Sciences next summer moves into its new building erected expressly for it in Humboldt Park by the city of Buffalo, the climax to nearly five years of solid work will have been reached. By "work" is meant the educating of several hundred thousands of citizens, including the city officials, to the inadequacy of the Society's present quarters and the need for a new and better equipped building in keeping with the size of Buffalo and the recent popular idea of a museum's potential educational facilities.

The first step was taken in 1922 when, from the legislature of New York, an amendment to the city charter was obtained which removed the possibility of any legal question that might be involved in the erection of such a building by the city of Buffalo. After conference, one of the members of the council agreed to present a resolution providing for the erection by the city of a museum building in Humboldt Park in accordance with the authority conferred by the charter amendment. The date for the public hearing on the resolution was set for February 23, 1923, in the council chamber. On that occasion over two hundred friends of the Society were present as speakers on behalf of the project. These were leading citizens, in most cases representing powerful organizations. But only three of the five commissioners were present for the hearing, and as Buffalo has a commission charter form of government which necessitates the affirmative votes of four of the commissioners on any question involving the issuance of bonds, the matter was referred to a referendum vote to be taken at the regular election the following November.

VOTE TO APPROPRIATE ONE MILLION DOLLARS—THE BUILDING DESCRIBED

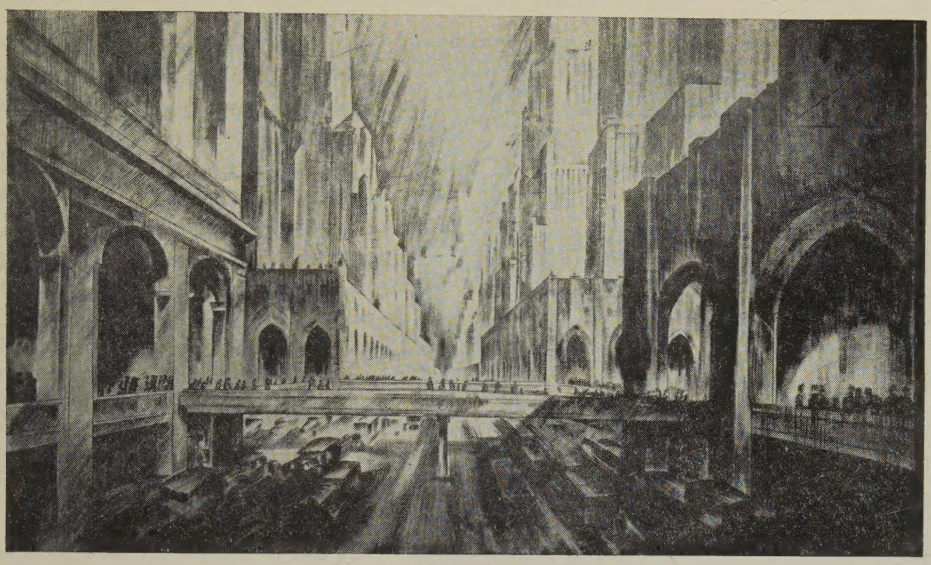
Constant work was being accomplished by the friends and staff of the Society between the public hearing and

election day, but on the evening of the latter day it was found that all had not been in vain. The election returns showed that over 45,000 citizens had voted in favor of the appropriation by the city of one million dollars for the erection and equipment of a new science museum building. The museum project had carried by a majority vote of 14,801. And now the building is just having its roof placed upon its four carefully laid-out floors. The ground floor will be occupied by a large children's department, an auditorium capable of seating four hundred persons, the visual education department which annually loans free of charge nearly 300,000 lantern slides from a collection of 55,000,—and a cafeteria for patrons and staff members.

The main floor is to be entirely given over to exhibitions. Two huge rooms in the front of the structure will be devoted to local flora and fauna and civilization respectively. Directly behind these is a series of rooms presenting a phylogenetic arrangement of the progress in the main divisions of science. The rooms begin with astronomy, proceed through biology, invertebrate and vertebrate zoölogy, evolution, heredity, public health, physics and chemistry, dynamic geology and end with prehistoric man. Several smaller rooms have been reserved for special exhibits to be changed more often than the foregoing permanent series. The second and third floors will be devoted to executive offices, research laboratories, workshops, storerooms for reserve collections and round table rooms in which the various scientific clubs associated with the Society proper can hold private meetings.

It will, of course, take some time to complete the installation of exhibits throughout the main floor of the museum. As soon as the two large rooms are ready, however, the public is to be invited to inspect them and the occasion is to be known as the grand opening. Inasmuch as the building in Humboldt Park is situated at the center of a two-mile radius of seventy per cent of the city's school population, many thousands of school children will find the museum a veritable Mecca of information. The Friday evening free lectures which the Society has sponsored for over twenty years will continue to be given in one of the downtown high school auditoriums because it was not thought feasible to construct an auditorium capable of holding two thousand people in the museum, the general idea having been to give every inch of space possible to exhibits.

The comparatively near future will see the completion of one of the latest types of museums from an educational point of view. It won't be the largest, it won't be the most heavily endowed, it won't be the most expensive structure, but it will embody years of forethought, planning and untiring industry. It goes without saying that it will be crowded from the moment the doors are open.



Looking Down a New York Street in 1975
As Visioned and Designed by Harvey Wiley Corbett

UP WITH THE SKYSCRAPER

BY HARVEY WILEY CORBETT

A distinguished New York architect hastens to the defense of the abused skyscraper. It is not the cause of traffic congestion; on the contrary it tends to relieve it. :: :: :: :: :: ::

The City Club of New York issues a little bulletin each month. It is entertainingly written and neatly gotten up. It tells things about city government, and gives a lot of interesting facts. I have received it regularly for quite a while, and have come to look forward to it as I used to look forward to the *Youth's Companion* and *Saint Nicholas* when I was a boy.

But recently I found two issues on the desk before me, and I knew at once that something was wrong. I looked with bewilderment and a little anxiety at the enormous black type on the front pages:

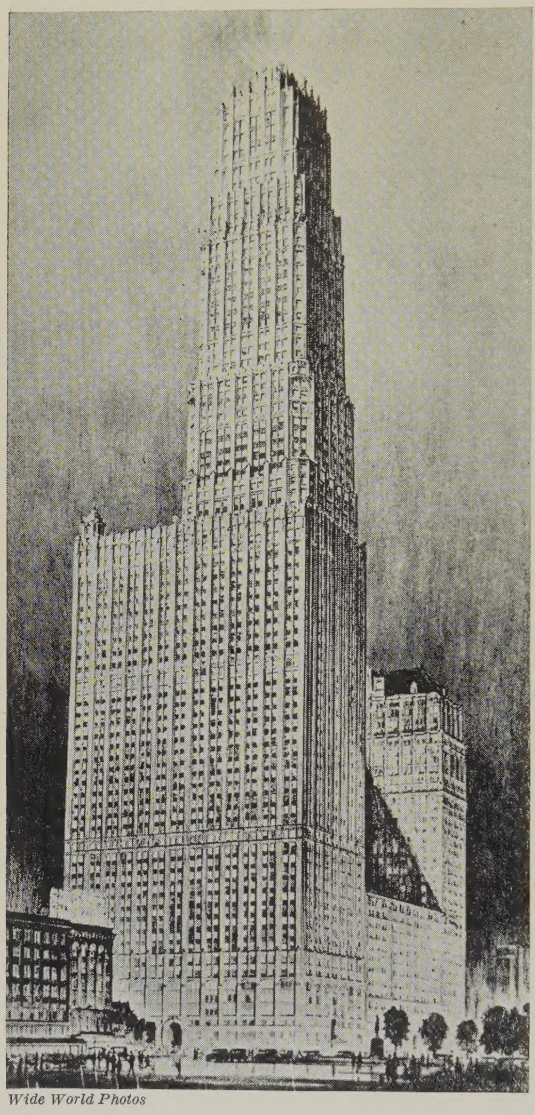
MUNICIPAL MURDER

Killed 54. Wounded Unknown
What New York Did to Its Own
Children in June

Murder? Horrible! Accustomed as I had become to murder as reported in the tabloids, the word always gave me a thrill of terror. But *municipal* murder! Heavens, had the Mayor been shot, or— I tried to calm myself. Maybe it was all a joke. Then I read the sub-heading:

Latest Casualty List from the
Skyscraper-Motor Car Front
Along the Sidewalks of
New York

I admit I was puzzled. Skyscrapers? Motor cars? Had somebody's Buick sedan suddenly gone mad, and slashed some innocent creature's throat with a razor? Was it possible that the Equitable Building had been skulking up Broadway o'nights, brandishing a Colt automatic? Then suddenly a chill



Wide World Photos

BOOK TOWER, DETROIT

Work has begun on this structure which will be 81 stories high, stretching 873 feet into the air

struck me to the very marrow. Perhaps—just perhaps—one of my own little brood had disobeyed papa and was out painting the town red. If the Bush Building, for instance— But that was preposterous. Of all our little ones, Bushie, as we affectionately call him, is the most serious-minded. He's always home at night working on his arithmetic lesson.

When I had recovered sufficiently to proceed, I determined to get to the bottom of this mystery.

Killed 54.—Wounded Unknown.—This is not a war communiqué of 1918, nor does it refer to American soldiers. It is a peace bulletin of 1926. It refers to American CHILDREN, who were alive in May and were killed in June—June of this very summer that is still fading into autumn—KILLED, by the motor vehicles in the streets of New York.

That might be all very well so far as the automobile went, but where did the poor skyscraper come in? I read on:

The City Club has already brought figures to light showing the mounting MUNICIPAL MURDER rate of New York, at the hands of the clumped skyscrapers and the packed and pushing motor vehicles that the skyscrapers breed.

At last light began to dawn. Somehow or other the skyscraper was the real villain. The skyscraper caused the congestion, that narrowed the streets, that filled the subways, that bred the motors, that killed the little children. It sounded suspiciously like "The House that Jack Built." But to proceed.

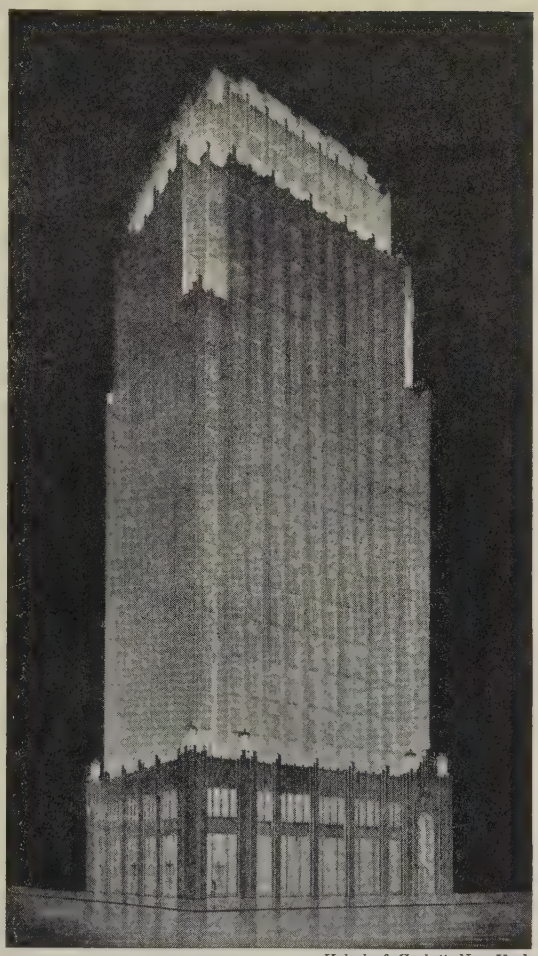
The first prize for motor-car murder must be given to the month of June, 1926. In that month alone, 54 children under fifteen years of age joined the childhood regiment of the dead—in June, when the schools were out, and Nature's weather called them to play. The murder rate for children then rose to two a day. "What is so rare as a day in June"—without the KILLING of a few children here and there as they skip about in their dance of death between the sidewalks of New York?

In spite of myself, I began to admire the literary style of the *Bulletin*. It sounded like the editorials in the tabloids at their best. Bernarr MacFadden would have been proud of it, and even Arthur Brisbane would have leaned back after writing that paragraph with satisfaction at a good day's work done. At the same time, I had a haunting feeling that someone—someone near and dear to me—was being falsely accused. I pushed on to get to the root of the matter.

With a vengeance, this is MUNICIPAL MURDER—because the city can, and does not, scatter the clustered skyscrapers to whose appetites the motor cars must minister—because the city can, but does not, regulate the roaring motor monsters as they speed through the narrow streets filled with children at play—because the city can, but does not, establish more and still more parks and playgrounds where children may play in safety instead of being entirely confined to the motor-thronged streets—because the city can, but does not, do something about it.

Will the Board of Estimate and Apportionment take this up without waiting for the Mayor's Committee? Will they?

The City Club will continue to ask this question—and will do more—in memory of the 54 LITTLE CHILDREN KILLED by the kind of a June we have in New York.



Helmle & Corbett, New York

OFFICE BUILDING, PENNSYLVANIA POWER AND LIGHT COMPANY, ALLENTOWN, PA.

It will house employees now scattered throughout twelve or fifteen buildings. Scarcely another building in town is over four stories

I was beaten, ashamed, bewildered. Fifty-four little children killed by skyscrapers—or was it June? Something was decidedly wrong, because the proverb says that where there is smoke there is fire. But the smoke was too thick at the moment. I must take time for reflection.

A RAY OF HOPE—LONDON TRAFFIC WORSE

Days, weeks, passed. I sneaked around with bowed head and guilty conscience. My tribulation was only augmented when I heard Mr. Henry Curran, the able attorney for the City Club, speak before the Building Congress. The burden of his speech was "Down with the Skyscraper." It was too much.

At last came a ray of hope. A reporter for the *London Times* came into my office bearing a clipping from

that paper which told of the traffic congestion in London.

It appears that Lord Montague, a famous traffic expert over there, had confessed that traffic congestion in the city of London had arrived at a hopeless state. The subways were impossible. Buses and taxis could hardly move.

Now I am somewhat familiar with London, and I remembered having seen motor traffic more hopelessly tangled than it ever was in New York. I have taken the tube at Victoria Station morning after morning on my way to Temple Bar, and I have been just as badly squeezed and shoved as I had ever been in New York.

I further remembered that the street area in London, in proportion to the building area, is far in excess of New York. Besides, the city is studded with small parks. But there is not a single skyscraper in all London! The highest building is ten stories—and we built that ourselves.

I began to breathe easier. Maybe the City Club *Bulletin* had accused the wrong party. Perhaps Prosecuting Attorney Curran had haled the wrong prisoner into court. The more I thought of it, the more convinced I became that the very trouble in London was the *lack* of skyscrapers. Business in London is spread over an enormous area, with the result that buses, trams, taxis, and subways are constantly crowded with people going from one building to another, one part of the city to another, to carry on business. In downtown New York, a business man consults his broker, eats his lunch, sees his lawyer, buys his wife a box of candy, gets a shave, all in the same building. At most he walks a few blocks. Most of the time he travels up and down instead of to and fro. But in London, a business man's duties take him all over town—on the surface.

THE SKYSCRAPER HAS NOTHING TO DO WITH IT

So I came to the conclusion that the skyscraper had nothing to do with it. Skyscraper or no skyscraper, the automobile situation would be the same. In New York's financial district, in fact, where the buildings are the highest and the streets narrowest, there is actually less congestion than along the shopping and residential streets. Is it because the business man knows it is useless to drive downtown? I doubt it. He hasn't any use for his car during business hours. The financial district, because it is built high instead of wide, is a very compact unit, and most of the traffic is vertical instead of horizontal.

If we took Mr. Curran's suggestion and levelled the entire island out to seven or perhaps ten stories, what would happen? Business would spread. Would that relieve traffic? Not at all, because now, the man who has to confer with a business associate finds him in the same building, or in one near by. Whereas, if the city were levelled out to an even height, he might have to go five times as far. Then he would take a taxi, and by just that much increase motor congestion. Taxis don't do much business during working hours downtown, because vertical circulation —elevators—is the chief mode of transportation. Which do you suppose congests traffic more: 50 thousand people riding up and down in elevators, or 50 thousand people riding on the streets in taxis or trolley cars?

Let us take an individual example to show how a skyscraper may actually reduce street congestion. At the present moment we are erecting in a small city in Pennsylvania a 22-story skyscraper. There is hardly another building in the town over four stories. This structure is being erected for an enormous concern—the Pennsylvania Light

Helmle & Corbett, Architects

A Three-Level Street of the Future

and Power Co.—and their employees at the present time are scattered throughout the town in twelve or fifteen buildings. The employees come to business in motors and park them in the streets. To get from one building to the other, they use their cars. But when the new building is complete, and all departments are under one roof, they will keep off the streets all day. Waste motion is eliminated, greater efficiency insured, and traffic greatly simplified.

I am beginning to feel that it is my plain duty to send Lord Montague some plans for a few of our latest models in skyscrapers—something neat in forty-two stories, say. They ought to clean up London traffic congestion nicely!

But still the blame for "municipal murder" had not been placed. I turned back to the City Club *Bulletin* for further enlightenment, and discovered the following quotation from a New York newspaper:

Another victim of an automobile accident yesterday was eight-year-old Peter ———. He was killed by an auto truck while crossing Second Avenue at 112th Street. Examination of the truck after the accident showed that its brakes were defective, the police said. The driver of the truck was arrested, charged with homicide.

Doubtless that motor truck, with its luxuriously appointed interior, and its liveried chauffeur, was roaring down Second Avenue, bearing some frenzied financier to his great office building in the heart of the financial district—which, as everyone knows, is situated at Second Avenue and 109th Street!

WHERE DOES THE BLAME LIE?

The *Bulletin* chooses its examples badly. If little Peter had been rolling his hoop down the steps of J. P. Morgan and Co. into Wall Street, the reader would be more impressed. But Second Avenue and 112th Street! I am sure that the death rate from motor cars on any corner of any suburb of Akron, Ohio, is as great as at Second Avenue and 112th Street.

I do not mean for a moment to joke at the expense of children whose lives are constantly imperilled by automobiles. The traffic situation is acute, and something must be done about it. It is a veritable dance of death, as the *Bulletin* says. But the children are dancing with the automobile, not the skyscraper. It is hardly fair to pull at our poor old heartstrings and squeeze our overworked tear ducts by luridly painting this grim massacre of little children, and then accuse the wrong party. Wholesale murder by traffic is no more acceptable to civilized countries than wholesale murder by war, but when wars break out, we do not blame the casualties on the factory buildings, that housed the machinery that manufactured the rifles, that shot the bullets, that killed the soldiers.

The real criminals are the automobile and the careless driver. Little Peter was killed because that truck had defective brakes. There is no denying that traffic congestion in some parts of New York is terrific. A man walking in the street occupies only about ten square feet of surface, but an automobile standing or parked occupies one hundred square feet. The same automobile moving slowly takes up two hundred square feet of street room, and when the speed is increased to 15 or 20 miles per hour, it takes up three or four hundred feet of street surface. Just divide the area of the streets by the number of automobiles in Manhattan and you have the answer.

Traffic is bad in New York, but it is worse in other cities where the average building height is far less. Detroit and Los Angeles, for instance. But Detroiters put the blame on the automobile, where it belongs. They will not, however, stop building automobiles, and we will not stop building skyscrapers, as long as both continue to perform a vital function in our lives.

I am heartily in accord with Mr. Curran and the *Bulletin* when they fight for more parks, and for regulation of traffic. We need more open spaces. It is up to the engineers and architects and traffic experts to see that street capacity is increased and parking facilities provided to remedy existing evils. But I notice that Mr. Curran doesn't suggest *abolishing* the automobile. Perhaps he has just bought a new one.

You can't kill off the skyscraper, for it would be against nature and progress. Our tall buildings have proved their efficiency as a factor in business a thousand times over. They may have started as a speculative proposition, but if they had not been found good, they would have died. Speculation never lasts, but you cannot stop nor-

mal growth. Growth is progress. The only way to stop a tree from growing is to kill it. A city is not just a mass of bricks, stones, streets, subways. It is an organic-growing thing, with its inhabitants flowing through its veins like the corpuscles in the blood.

The subway is another serious problem. The backers of the "Down with the Skyscraper" campaign point out, and with some truth, that as soon as new subways are built, there are new skyscrapers to be filled, and the congestion is just as great as it was before. It is a vicious circle, they say. But is that any reason why we should stop building subways to the congested districts? Mr. Daniel Turner, engineer to the Transit Commission, has suggested a bright solution. He thinks we might start subways from points where nobody is, and carry them out of the city to places where nobody wants to go. Then we would see the end of the straphanger.

The skyscraper is here to stay. Its present development is by no means ideal. It has received much abuse. But concentration of tall buildings in certain sections is bound to occur in one form or another. The engineers and architects and city planners must see to it that it grows intelligently and rationally, taking advantage of all that science has taught. Then subways and motor traffic will slowly be adjusted in accordance with demand and with common sense.

TOWN PLANNING IN THE CITY OF SPIRES

BY ANDREW H. BERDING

Brasenose College, Oxford University

Oxford's charm is due in a measure to the absence of city planning in the modern sense. But the old garments no longer fit. :: ::

The town council of this famous old university city, known the world over as the "City of Spires"—Oxford, England—has put its wise heads together and is evolving a city plan.

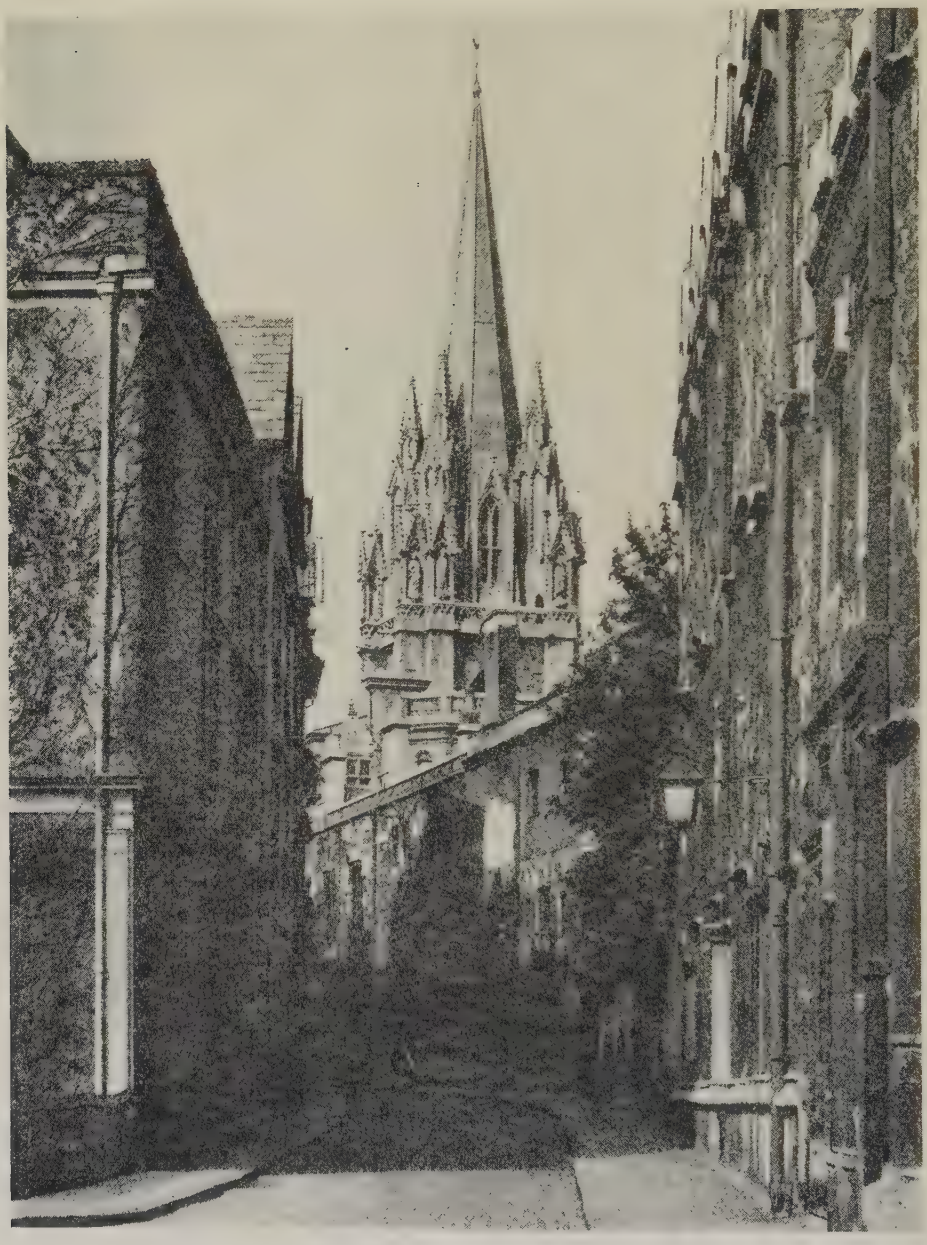
The projects the councillors are considering are proving of interest to London municipal authorities and contain matter that should have the attention of municipal heads in American cities too.

One of them, for instance, is the wholesale purchase by the city of property on its outskirts, which later will be sold to individuals and corporations as the city grows, and developed under the supervision of the city. By these means it is hoped that wide roadways will be provided, together with open spaces and garden spots.

Another novel project is to prohibit the erection of any homes or factories in the district which may during the winter and spring months be flooded by the Thames—at Oxford, you know, the Thames is called the Isis. Floods invariably leave property in an insanitary condition—as witness the inundation of some of the Florida cities during the recent hurricane, and this unhealthful condition the Oxford authorities wish to obviate.

NO OTHER CITY LIKE OXFORD

Oxford is a city of about 50,000 souls. Its history runs back a thousand years and more. Up until the



ST. MARY'S, OXFORD

Many Oxford streets may be too narrow for modern times, but no one can deny their charm of lights and shadows when they reveal a scene like this

twentieth century it ambled leisurely on its way, no one daring to think of making changes. And in the first decade and a half of the twentieth century, this was likewise the fact. But just within the last five years Oxford has suddenly seemed to become too large for its clothes, and it is beginning to cry for a change of habiliments.

There are some exquisitely beautiful places in Oxford, but its narrow streets, some of them merely alleys, do not serve to show off these spots of beauty. Oxford is certain to expand as it has been doing in the last five or ten years. There is really no other city in England or on the Continent like it. It contains what is regarded as the best university in the world. Ancient and historic buildings stand on every street. Some of its main streets, like the High and the Broad, are noted for their beauty. The countryside around the city is charming. The railway service to London is perhaps the best in England. The tax rates are low. For a long time there has been a greater demand for houses than a supply. Under these circumstances a city plan is deemed a necessity by those who have it under consideration.

LAND DEVELOPMENT BY MUNICIPALITY

Under the Oxford Corporation Act recently passed, Oxford has the power to proceed with city planning ideas. The city has made a number of purchases of land in recent years. This land is now under development; cottages and other buildings are in course of construction. As a result of this buying policy of the city it is estimated that Oxford has on hand in its own name enough land to accommodate construction work for at least five years.

This ability of an English municipality to purchase large tracts of land, whether or not the city has an immediate need for them, is to some extent similar to the excess condemnation power being exercised by many of the larger American cities at present. Like the excess condemnation of the United States this wholesale purchasing of land with an eye to the future may be the means of reaping a neat profit for the city. But those who are studying the purchase plan of Oxford say they are not "out" for profit. The statement was recently made that: "No city corporation can well be accused of speculating if it takes steps to provide for the welfare and health of its inhabitants and buys land when the price is very low, as it has been near Oxford for many years. It may, on the other hand, perhaps be accused of remissness if it fails to take action in time and loses favorable opportunities which will never recur."

The maker of this statement, Raymond W. Fennell, who is making a special study of Oxford's city planning conditions, summed up the advantages of the municipal purchase plan by saying:

"It is not only that a city can control development better and reserve open spaces more easily if it is the owner of building land close at hand. It can resell what land it wishes to those waiting for a home and so recover a portion of the purchase price—for there is no need for a city to keep land indefinitely once the best use is being made of it; it can help and hurry forward private building operations that are often checked or completely stopped by lack of water and proper sanitary arrangements, as indeed they have been near Oxford; incidentally it can probably earn big profits in the process; and besides all this it can often most easily relieve existing crowded areas if it owns open ground close at hand on

which cottages can be built. The advantages of owning land in the earlier stages of development are overwhelming."

Unfortunately, the writer of this article is not an idealist, but a "hard-boiled" newspaper man from Ohio studying at Oxford University. And there at once occurs to my mind the immense possibilities for "graft" on the part of city officials in the way of buying up land and supplying water and other public utility comforts and necessities to their own subdivisions first, while making the private real-estate promoter wait his turn. This dangerous temptation to participate in the profits of a municipal enterprise so large would deter many states from making such a condition legally possible.

FLOOD AND SLUM AREAS

In line with its city planning discussions the city council is likewise considering prohibiting the erection of buildings in the flood area.

"There is only one sound course open," said a recent advocate of this plan, "and that is to induce the Ministry of Health to proclaim definitely that nowhere shall building take place in the Thames valley, either at Oxford or elsewhere, in areas that are liable to flood. There can be no satisfactory compromise on a question of this kind. It is the question of pure water and of health for miles along the valley."

The Oxford medical officer of health has advocated the wiping out of a whole section of Oxford, known as St. Aldate's and St. Ebbe's, whose buildings are tumble-down, damp and dark, with an almost total lack of ventilation. Some of these old buildings were once the "digs"—lodgings—of distinguished scholars, who lived out of college. But their historic significance renders them none the less insanitary. Acting on the health officer's report, the town council has decided to widen St. Aldate's, the main street of the district, and ultimately to clear off the comparatively small number of houses situated east of this street.

Mr. Fennell, already mentioned, has suggested to the council that the whole area be pulled down, a section at a time, and six or seven acres, "not too near the city," should be set aside for a standing camp to house the occupants of the condemned buildings.

City council likewise has under consideration the suggestion that it make a business proposition of the proposed condemnation, build a new commercial subdivision on the sites of the old buildings after they have been torn down, and reap substantial financial rewards. St. Ebbe's is situated very near the center of Oxford, and the land is comparatively quite valuable.

WILL CHANGES REDUCE OXFORD'S CHARM?

Although the streets around the center of Oxford are models of architectural finish, the approaches to Oxford are in direct contrast. They do not at all give the visitor an indication of what he is to find within the city.

The present Mayor of Oxford has requested the Royal Institute of British Architects to appoint a small committee which the city might consult on questions such as the approaches to the town. The committee has been appointed and is ready for consultation.

Perhaps some of the more intimate charm of Oxford will be dissipated by these many changes. It is a delicious kind of wonder one has as one walks down the winding, curving streets, never knowing what the next corner will bring—like as not a blind street. But something must be done, because Oxford is facing a real problem.

CHRIST CHURCH, OXFORD

The approaches to Oxford do not reveal to the visitor entering the city the beauty hidden within. A committee of the Royal Institute of British Architects is studying how they may be improved

J. Wells, ex-vice-chancellor of the University, calls it "a problem of the utmost importance, and one which is of the present. Our generation in Oxford still retains more of the inherited beauty of the past than any city in England, except Cambridge; but we are losing some of it every year."

THE SUPREME COURT SPEAKS AGAIN ON "FAIR VALUE"

BY JOHN BAUER

Director of the American Public Utilities Bureau, New York City

The Supreme Court leans more and more to reproduction cost as a measure of value. Other considerations were also involved and the present case cannot therefore be considered as a positive and final decision on this important question. :: :: :: :: ::

On November 22, 1926, the Supreme Court of the United States declared confiscatory the water rates fixed on January 1, 1924, by the public service commission of Indiana for the Indianapolis Water Company serving the city of Indianapolis, Indiana.

This decision will probably mark one of the principal points in the history of the Supreme Court's dealing with the complicated problem of public utility rate-making. Its importance is not in the *decision* itself declaring the particular rates confiscatory, but in the *opinion* discussing the principles of valuation for rate-making. Heretofore the court has not been more specific than to say that a company must be allowed a "fair return" on the "fair value" of its property devoted to the public service. Just how "fair value" is to be determined, it has steadfastly refused to prescribe except in the very general formula laid down in the famous case of *Smyth* v. *Ames*.[1] It stated that consideration should be given to

> . . . the original cost of construction, the amount expended in permanent improvements, the amount and market value of its bonds and stock, the present as compared with the original cost of construction, the probable earning capacity of the company under particular rates prescribed by statute, and the sum to pay operating expenses . . . and are to be given such weight as may be just and right in each case. We do not say that there may not be other matters to be regarded in estimating the value of the property. What the company is entitled to ask is a fair return on the value of that which it employs for the public convenience. On the other hand, what the public is entitled to demand is that no more be exacted from it for the use of a public highway than the services rendered by it are reasonably worth.

This statement has been repeated and referred to almost innumerable times, and with some later amplifications as to depreciation, going value, past profits and losses, it has been the law. It has indicated the elements to be considered in a valuation, but has not fixed the relative weight of the several factors.

During the past ten years, the chief question in rate cases has come to be whether "fair value" should be based primarily upon the actual investment in the properties or upon the reproduction cost at the time of the inquiry. In some cases the court in the majority opinion has stressed the reproduction cost factor,[2] but in others has given approval to the dominance of actual investment.[3] In the present case, however, the majority opinion—*as distinguished from the decision*—flatly validates reproduction cost and pre-

[1] 169 U. S. 466, 544 (1897).

[2] Southwestern Bell Case, 262 U. S. 276; Bluefield Water Case, 262 U. S. 679.

[3] Georgia Ry. and Power Case, 262, U. S. 625; Galveston Case, 253 U. S. 388.

sents the conception in such precise terms as to leave little room for doubting the significance of the language so far as the particular case is concerned. The principal statement is as follows:

> And, as indicated by the report of the commission, it is true that if the tendency or trend of prices is not definitely upward or downward and it does not appear probable that there will be a substantial change of prices, then the present value of lands plus the present cost of constructing the plant, less depreciation, if any, is a fair measure of the value of the physical elements of the property.

This language is plain. Moreover, the court's discussion of the methods of valuation used by the commission further emphasizes the conception that the value of a public utility plant depends solely upon present and prospective prices. Past prices and costs are important only as they reveal the trend of future costs. If the level of prices at the time of the valuation promises to continue for a considerable future, without substantial increase or decrease, then the reproduction cost less depreciation, is the proper measure of value. If the trend is downward, then a lower valuation would be required; if upward, a higher valuation. Value is thus measured not in any way by actual past costs, but wholly by present and prospective costs for a considerable future period.

IS THE MEANING OF FAIR VALUE MODIFIED?

Other aspects of value are treated in the opinion, but they are secondary to the apparent approval of reproduction cost and will not be considered in this survey. The uppermost questions raised by the opinion are: What control will it exercise upon future cases, and how will it affect future policy and methods of regulation?

As to the first question, the language appears exact and sweeping, but the decision itself seems quite acceptable under the "fair value" rule as it has been heretofore regarded. The decision itself declaring the rates invalid did not depend upon the express acceptance of reproduction cost as the constitutional measure of value. It would be justified upon other grounds, as is indicated by Justice Holmes in merely concurring in the decision without joining in the opinion. Justice Brandeis wrote a dissenting opinion joined in by Justice Stone; their disagreement appears to be based upon the declaration on value, rather than upon the basic facts whether the rates were adequate regardless of the full recognition of reproduction cost in the valuation.

The opinion written by Justice Butler sets forth quite fully the procedure of the commission in fixing the valuation upon which the rates were fixed. The quotations from the commission's opinions and reports in dealing with the same company in earlier rate adjustments, show that the commission was badly involved in political considerations and did not base its findings wholly upon the facts which it seemed to recognize as existing. Its procedure in fixing the rates was sufficient to justify their rejection without requiring them to be based upon the reproduction cost of the properties.

THE COMMISSION'S INEPT PROCEDURE

The commission had dealt with the same property in case No. 1400 and in case No. 6613. In the first case it reported that the value of the property as of January 1, 1917, was not less than $9,500,000, and in the second that as of December 31, 1921, the value of the "operative and non-operative" property was $16,455,000. In the latter case it discussed the great rise in prices which had taken place, and practically

confessed that it had not given sufficient weight to the higher price level. Moreover, it presented at considerable length the company's water rights, acknowledged them to be highly valuable, but gave them slight if any weight in the value as determined. Finally it praised the company's operating organization, its connections and prospective developments, and thus practically avowed that it had not given sufficient recognition to the "going value" of the property.

To anyone acquainted with the inevitable political slant of commission procedure, what happened is plain enough. The commission felt that it should allow a substantial increase in the valuation over the 1917 figures because of the higher price level in 1921, and then to head off criticism of its action it spread out a lot of generalities which may or may not have been so, but which would make it appear keenly zealous for the public and very niggardly toward the company. If the commission believed what it said, then the value fixed as of December 31, 1921, was too low and unfair: hardly any other conclusion is warranted.

But when the commission came to the present case—facing active public opposition to an increase in rates—it did not even stick to its previous findings. For May 31, 1923, it found that the value of the "operative property" was not less than $15,260,400, although the "operative and non-operative" had been fixed at $16,455,000 as of December 31, 1921. There had been a lapse of nearly one and a half years with additional construction for improvements and extensions, and yet the later valuation was $1,194,600 lower! Why? There is a discrepancy in that the earlier figure included "non-operative" property; but this was slight,—estimated at $648,921 by the commission's engineer, and at $68,000 and $119,000 respectively by two engineers employed by the company. Moreover, the commission's engineer testified that the earlier valuation was based upon average prices of ten years prior to 1921, and that the average for the ten years ending with 1923 was considerably higher; also substantial reductions were made in working capital and going value.

"THE POOR PUBLIC"

The commission's own dealing with the property justified the rejection of the rates as inadequate, without basing the decision upon the reproduction cost as the measure of "fair value." Doubtless the commission's inept handling of the case was largely responsible for the pronouncement which may have an unfortunate bearing upon future regulation. The case illustrates excellently one of the circumstances which has helped to befog the issues and to produce opinions unfavorable to desirable and effective regulation.

The public side,—*i.e.*, the side of sound public policy,—has first and last suffered immeasurably through political factors injected into rate-making, by inept procedure, and by unintelligent presentation of the cases. Poor cases, poor handling, poor lawyers, and judges without adequate understanding of the economic and public issues, are certain together to make poor law.

Yet this is but one case, and in another the situation may be changed materially, just as happened in 1923 when two apparently contradictory opinions were issued on the same day.[4] In a case which really involves a full recognition of reproduction cost as the

[4] The Bluefield Water Case and the Georgia Ry. and Power Case, above cited. The first strongly stressed the importance of reproduction cost, while the second relied principally upon actual cost and stated expressly that a company is not entitled to have its value based upon reproduction cost.

measure of "fair value," there may be a different decision. When that is the direct issue, we may see a different line-up in the personnel of the court. Even in this case, Justice Stone joined in the dissenting opinion with Justice Brandeis; while Justice Holmes merely concurred in the decision without approving the opinion. And may we not hope that at least two more judges may see the grave consequences of definitely fixing reproduction cost as the measure of value when that is the decisive issue in a particular case?

THE ECONOMICS OF REPRODUCTION COST

The opinion in the present case, however, should not be passed by lightly without considering its possible if not probable bearing upon the entire problem of effective regulation. If its plain implications became fixed law, how could regulation be made workable? There is widespread opinion that regulation has been largely a failure. To the extent that this belief is justified the failure has been due chiefly to the lack of an administrable basis of rate-making, and this condition would be perpetuated by the definite establishment of reproduction cost as the rate base. Every rate adjustment would be based upon the then value of the property, which would depend upon the then prices and cost of reproduction. This would mean a constant conflict of interest between the companies and the consumers, would require repeated valuations, and would make the administration of rate-making cumbersome, constantly litigated, tremendously costly, and highly unsatisfactory. Moreover, it would inject a dangerous economic factor which for the future would imperil many billions of investments and threaten a vast disorganization of the fundamentally important industries.

If we should pass through a period of falling prices, such as followed the Civil War and other high price periods, the reproduction cost basis of value would bring insolvency to a large proportion of the industries. This is due to the fact that on the average over 75 per cent of the utility and railroad investment is represented by bonds with fixed interest obligations. Consequently a fall of 25 per cent in prices below the actual investment level would wipe out all return to stockholders, and a decline of 45 per cent, as experienced during the thirty years after 1867, would force practically every company into the hands of a receiver.

The opinion seems to assume a predictability and constancy of future prices which are hardly warranted by the past course of prices. What is the trend at any time? How reliable is it? Can anyone say with confidence that we are not at the threshold of a long swing downward? Do we know what effect the reintroduction of the gold standard in Europe will have? The extension of the gold standard in Asia, South America and elsewhere? A let-up in building construction? No economist today would dare to say that we are not facing an immediate period of falling prices—nor that we are; particularly not in utility construction cost.[5] But they all know what the results of the changes will be. If rates were to be based upon reproduction cost, then in the face of the common financial structure of the utilities, falling prices would mean huge losses to stockholders and financial disorganization, while rising prices would bring inordinate gains to stockholders, —four times as great on the average as the increase in prices!

[5] Early in 1920 perhaps the foremost economist on price levels ventured to testify in a case that the then high price level would continue; everybody knows what happened during the next ten months.

WHAT IS CONFISCATION?

Presumably Justice Butler believes that there is confiscation if, when prices have risen, the return on the properties, or the measure of the investment, is not increased accordingly. The court, of course, can say what the law is, but it cannot alter the economic facts. If prices have risen 50 per cent above the investment level of a company, and if the company's financial structure is 75 per cent bonds and 25 per cent common stock, then on the reproduction cost basis the bondholders still get only interest on their actual monetary investment notwithstanding the higher level, while the stockholders get a 200 per cent increase in monetary return compared with the 50 per cent higher prices. From the economic standpoint, at least, this is something more than the avoidance of confiscation. But, if conversely, prices have fallen only 25 per cent, then the entire return allowed on the reproduction cost basis would go to the bondholders, and the stockholders get nothing. This would be economic, if not legal, confiscation for the stockholders. The court should grasp the full significance of this fundamental economic situation before fixing the law as indicated in the opinion.

INVESTMENT AS THE RATE BASE

The only administrable and financially sound basis of rate-making is actual investment. This is an economic fact which, unfortunately, has never been brought out with sufficient clearness and completeness in the cases passed upon by the courts. There has been hope that the legislatures might deal directly with the situation and place rate-making upon an exact basis. But, can this be done if the language in the present decision were to become accepted law? If not, what becomes of regulation? Shall we flounder endlessly? Shall we turn to public ownership and operation,—not because of superior efficiency and lower cost, but because of the legalized futility of regulation?

The public interest—*i.e.* from the standpoint of desirable public policy—is concerned with definite and administrable principles and methods of regulation, which at the same time are fair to the investors and the consumers, and rest upon sound economic and financial grounds. How can such a system of regulation be established? Would it be attainable if the implication of the recent decision were to become fixed law? Would the legislatures and Congress be estopped from providing for such standards even if otherwise regulation is doomed to failure? Must we look to other methods of dealing with utilities?

These are grave questions. Have they been fully considered by all the members of the Supreme Court? Are they willing to fix an inexorable policy with all its economic consequences? We might ask, what is the function of the court? Is it to establish rate-making policies, or to prevent confiscation? If the latter, then why fix principles which tie the hands of the legislatures? What is confiscation in a utility? Why not define it in its relation to the public interest? And why not leave to the legislatures and Congress to determine what constitutes desirable and sound policy?

SKETCHES OF AMERICAN MAYORS

V. JAMES C. DAHLMAN, MAYOR OF OMAHA

BY JOHN F. SHOWALTER
Lincoln, Nebraska

A life history and character portrait of "Cowboy Jim," champion long-distance mayor. How does he do it? :: :: :: ::

THE long distance record for service as mayor of one of the larger cities in the United States is probably held by Mayor James C. Dahlman of Omaha, Nebraska. He is now nearing the close of his sixth term. First elected in 1906, he has remained in office continuously since that time, with the exception of the three years from 1918 to 1921, and no doubt will be reëlected in the spring of 1927 for another three-year term.

A staunch Democrat, for nearly eighteen years he has headed the government of a city normally Republican. He withstood the arrival of state-wide and of national prohibition. He survived the change from the "mayor-council" to the "commission" type of city government. His plurality was scarcely affected when machine-dominated elections were supplanted by a state-controlled registration and election system. The granting of the franchise to women did not keep him out of office, as those who decried the laxity of his administration had prophesied. The first city election in which women were permitted to vote returned him to office after his one defeat. There he has since remained. Properly, then, he is an object of national interest.

JAMES C. DAHLMAN
With the exception of one term has been Mayor of Omaha continuously since 1906

A COWBOY IN EARLY LIFE

James Dahlman was born on a Texas ranch, ten days before Christmas, 1856. He received some education in a small neighborhood school; but much more that was to be valuable to him in later life, he learned astraddle a mustang, punching cattle on the range and along the trail. When a young man of twenty-two, he became involved with his brother-in-law in an argument in which the reputation of his sister was at stake. Shooting in self defense, he thought he had killed his brother-in-law. He left Texas, and secured employment under an assumed

name as a cowboy on a ranch in northwestern Nebraska. There his native qualities of leadership began to assert themselves, and he was soon made foreman. It was a number of years later, when he learned that his shot had not even seriously wounded his brother-in-law, that he resumed his own name.

In 1883 the foreman fell in love with and married the private tutor on the ranch. Mrs. Dahlman, a graduate of Wellesley College, though quiet and unassuming, is a woman of keen intellect and sound judgment. To her must be given credit for the cultural polish that has removed every outward vestige of the former cowboy, and perhaps for much of the counsel and direction which has advanced her husband politically.

Mr. Dahlman, successful in local politics, soon widened his activities. He was a regular attendant at state conventions of his party, and served on the state railway commission for two years. In 1892, and again in 1896, he was a member of the Nebraska delegation to the National Democratic Convention. He took an active part in securing the presidential nomination for his friend and fellow-Nebraskan, W. J. Bryan, and was a conspicuous figure in all the Bryan campaigns.

In 1899 Mr. Dahlman came to Omaha. Because of his experience as a cowboy he had no difficulty in securing a position with a live-stock commission firm in South Omaha. In a short time he became one of the most popular men in the Union Stockyards. In 1906, some of his friends who knew him intimately, suggested that he run for mayor of Omaha on the Democratic ticket. He had been in the city only seven years, and was comparatively unknown outside of South Omaha. For that reason his aspiration at first was treated as a joke. As the campaign progressed, however, people began to change their minds, — Dahlman was proving himself one of the finest campaigners that they had ever seen. He seemed able, with a few words—bromidic and platitudinous as they were—to touch a responsive chord in his audiences. So rapidly did he gain in popularity that during the closing days of the campaign he had to rent theaters to accommodate the crowds that wanted to hear him and he defeated his opponent, who was running on a "reform" platform, by 2,900 votes.

COWBOY JIM BECOMES MAYOR

"Cowboy Jim" was not a "reform" candidate. He did not become a "reform" mayor. Omaha was a "wide-open town" in those days, and there is no evidence that it became better or worse during his administration. A majority of the public, however, must have been satisfied, for Mr. Dahlman was elected for his second term over the candidate of the "Law and Order League" by a larger plurality than he had received three years before.

In 1910 Mayor Dahlman secured the Democratic nomination for governor, but was ignominiously defeated at the polls. Nebraska, except for Omaha and Lincoln, is largely rural. Aside from being closely associated with the metropolis, which the farmers believe is opposed to their interests, the mayor's fondness for the "cup that cheers" is said to have interfered seriously with his campaign, and weakened his position with the electorate.

During Dahlman's second term as mayor, Omaha adopted a commissioner form of city government which, in substance, is in effect today.

Considerable opposition developed during Dahlman's fourth term. It was asserted that Omaha was one of the "wickedest cities in the United States," and that the city administra-

tion was to blame for the situation. It is maintained that there existed in Omaha a powerful political ring, ruled over by a man known as the "King of Gamblers"—a character of national fame in the underworld; that allied with him were the saloon interests, organized vice, several of the city's franchise corporations, and perhaps one of the daily newspapers,—a combination capable of bringing tremendous pressure to bear upon a considerable part of the electorate, as well as those in direct charge of the city's government. Mayor Dahlman and his colleagues were the alleged tools of this machine.

In the spring of 1915, one of the newspapers sponsoring a complete change in the city administration, selected seven men as its candidates for commissioners at the primary election. The "Dahlman Ticket" was made up of six commissioners and one new man. These seven were nominated, together with four from the newspaper's list, and three others. The newspaper promptly presented to its readers a new "slate," consisting of the four from its pre-primary list who had been nominated, one from the Dahlman list, and two of the others. At the election only two of the candidates on this "slate" were chosen, Mr. Dahlman and four of the other commissioners being reëlected. When the new council was organized Mr. Dahlman was made mayor for his fifth consecutive term.

REFORM WAVE RETIRES DAHLMAN FOR ONE TERM

The result of this election was a surprise to advocates of good government. Two years previously they had presented to the state legislature startling but undisputable evidence of so much corruption in the conduct of elections in Omaha that that body enacted a law providing for Omaha and Douglas county one of the most effective registration and election systems in the United States.[1] The system is state-controlled and directed, and almost completely obviates the possibility of padded registration lists, fraudulent voting, or falsified returns. It was relied upon to sweep out of office once and for all an allegedly inefficient, corrupt, machine-elected and controlled group of city commissioners. The result has already been shown. Either Mr. Dahlman had not owed his former elections to manipulations of election machinery, or the opposition was divided and scattered its vote. Another possibility presents itself—perhaps Mr. Dahlman's individual vote-getting proclivities excel those of any organization, dishonest or legitimate.

Omaha citizens interested in better law enforcement took advantage of the wave of reform that swept the country just previous to and during the World War, to emphasize to the voters the prevalence of vice in the city and the apparent helplessness of the authorities to cope with the situation. They urged and secured united action on the part of the voters. Concentrating their attack upon Mayor Dahlman, they were able to defeat him in the election of 1918, though they did not secure all the members—perhaps not even a majority—of the council. Their candidate for mayor was given that position. Immediately he became responsible for the enforcement of state laws and city ordinances, but had practically no control over the police department. This anomalous situation could not help but result in disaster.

The new mayor was not a long-faced, frock-coated "reformer," but a keen,

[1] See National Municipal Review for November, 1926, for full description of Omaha's registration system.

intelligent, capable business man, vitally interested in bettering the government of the city of Omaha. From the start, however, he was handicapped. He lacked political experience; he did not know how to handle the type of men with whom he had to deal; he headed a divided council; he could not control all the machinery of government. Moreover, hostile interests were able to harass him at every turn. The city overflowed with criminals of all classes, imported—it is alleged—by the "king of gamblers" in an attempt to discredit the "reform" administration. The police were rather apathetic. Much publicity was given to crime and disorders. Women were urged to remain off the streets after nightfall. Conditions, however, probably were not so bad as pictured. No doubt a subtle and sinister system of propaganda was at work. An unbiased survey of the situation seems to indicate that laws were better enforced, and that there was actually less crime and lawlessness in the city than ever before. Near the close of the reform administration a negro lynching proved its complete undoing.

Mr. Dahlman, astute politician that he is, sensing the popular revulsion, publicly interpreted the reaction against the reform mayor as a "popular demand" for his candidacy, and during a whirlwind campaign harangued clamorous audiences with speeches from which this is a typical excerpt:

> Give me these six men of the United Seven Ticket in the City Hall, and I'll guarantee you we will organize the police force and if we don't make the city safe, so men and women may walk up and down the streets at night, you can put me out.

The Dahlman ticket was elected, the ex-mayor heading the list with more than 10,000 votes plurality over the highest defeated candidate. "Cowboy Jim" was soon mayor of Omaha again, for the fifth time.

There were sporadic attempts to defeat Mayor Dahlman and his ticket in 1924. They resulted only in lowering his plurality somewhat and depriving him of one colleague. He is mayor now for the sixth time, and nearing the close of his term. In May, 1927, occurs the next city election. There are, at present, no indications that he will not then be returned to office for a seventh time. "Mayor Jim," it seems, is a fixture in Omaha.

A UNIQUE PERSONALITY LOVED BY ALL

What sort of man is this political paragon, whom the voters of the state rejected, and to whom the voters of Omaha continue to award the highest office in the city? He is a small man, thin and wiry, firm-mouthed and thin-lipped, clean-shaven and bald as an egg—the result of sleeping in his hat during his "range days." Though he is well along in years, he still delights in an opportunity to don his chaps and sombrero, "drap a leg across a likely lookin' cayuse," and, rope in hand, race forth to "get a calf." He has taken part in so many "roundups" throughout the United States that newspaper men commonly refer to him as "Cowboy Jim, Mayor of Omaha." In his office or on the platform, however, there is nothing about him, save the marked bow in his legs, to indicate his early occupation. He looks more like the genteel, but somewhat discouraged, proprietor of a small-town general store than like a cowboy. As Omaha has outgrown its "Main Street" and taken on the air of a metropolis, so its mayor has hidden his rough and ready cowboy nature under a veneer of culture.

Mayor Dahlman has an individuality all his own. Charming and magnetic in a quiet sort of way, he is easy to

approach and makes friends readily. All who know him intimately—even his bitterest political opponents—love him. The youngsters of his neighborhood "swear by" him. Lavishly and impartially, he distributes among them cheerful words, friendly pats, and dimes—when he has them. Once a year he gives every child in the city who will avail himself of the opportunity, a "free" day at one of the city's private amusement parks, with street-car transportation included. He does this at no expense to himself, of course, since the corporations concerned are more than repaid in the advertising it gives them. It is good advertising for Mayor Dahlman, too,—political advertising; yet those who know his love for children, the joy he finds in their friendship, and his great delight in their pleasures, hesitate to say that the "Dahlman treat" is purely a political move.

Mayor Dahlman is a familiar figure in club and fraternal circles. He is an entertaining conversationalist, particularly when in a reminiscent mood he recalls his early days in Texas and Nebraska. Genial and loyal to his friends, nothing pleases him more than "good cheer" from them in return. Few men can slap so many others on the back and call them by their given names. In turn, he is "Mayor Jim" to hundreds of individuals from "Knob Hill" to "Poverty Flats." His fame in this respect is more than local.

GENEROUS TO A FAULT

The salary of the mayor of Omaha, always adequate, is now $5,000 per year. Yet the man who has held this office more than a fourth of the lifetime of the city; who is accused of selling pardons, licenses, and franchises freely; and who is alleged to be the tool of a wealthy gambling ring and political machine, is a poor man. He lives in a modest little home in a shabby part of the city,—a home which is not entirely free from debt. In his own words, he "hasn't done any entertaining for ten years" because he "couldn't afford it." He frequently brings sandwiches from home for lunch, and rides to and from his office on the street cars. He has no automobile. A few years ago some friends and admirers "chipped in" and bought him a car. He never used it and declined to discuss its disposal. According to a close friend, it was sold to pay some of his bills.

Mayor Dahlman gives away his money. His heart and his hand go out in response to calls of the poor and the oppressed, the widow and the orphan, the bum and the beggar. So long as he has a dollar in his pocket, anyone with a hard-luck story can get the last cent of it. When several other commissioners once complained that he was establishing a bad precedent by giving most of his salary to charity, he responded, "I've always been that way, and I can't help it; and I'll always be poor, because I'll always be that way."

Will he "be that way" when he retires from the business of seeking public office? If he has any money he will be, for he does not attempt to make "political capital" out of his inborn trait of super-generosity. No one will ever know the number or amount of his alms. He gives quietly, unostentatiously, individually, without thought of recompense. Many of those whom he has befriended, however, are voters. They have relatives and friends who are voters. Together they constitute a group of loyal supporters.

Anyone can get an audience with Mayor Dahlman; all he needs to do is to await his turn. When the mayor is in his office he is busy receiving an almost steady stream of visitors—people who have come for assistance or advice; friends, associates, and news-

papermen to pay their respects or to chat a bit with him; citizens with plans for furthering their own or the city's interests; and taxpayers with personal grievances and complaints. Because there are usually so many in the latter group, the mayor's office has come to be known as the "city trouble department." He takes a personal, kindly, human interest in each individual, and attempts—so far as possible—to have all causes of complaint removed. As an example, not so long ago when the proper city department was not sufficiently expeditious, he made a trip to a vacant lot in an outlying part of the city to supervise personally the removal of some rubbish offensive to a solitary resident of the district.

There is one plea, however, that he will not heed,—the plea of social workers that beggars be removed from the streets and properly taken care of in charitable institutions. If the mendicants prefer a meager existence with the excitement of the city to a comfortable living in a quiet institution (as most of them do), the mayor says that he has not the heart to deprive them of the little joy they get out of life. That is why visitors to Omaha are surprised and often disgusted to see the number of lame and blind (revolting specimens of humanity for the most part) occupying their respective niches on the city's busy streets, trading a pencil or a mumbled song for the dimes and quarters of passers-by.

It is almost as easy to get a pardon from Mayor Dahlman as it is a dime. During the past eighteen years he has issued close to 8,000 pardons,—an average of more than one a day. He attempts to justify this prodigious clemency with the rather doubtful statement that fewer than 100 of the people he has pardoned have ever been arrested a second time.

Mayor Dahlman is well advertised. Scarcely a week passes without his picture or some story about him appearing in the local papers. The reporters find him friendly, and delight in "playing him up." His cowboy days, his experiences on the ranch, his more recent activities in cattle-roping contests—all furnish material for news write-ups, feature stories, and editorial comment. A recent illustration is characteristic: A few months ago he attended a pioneer picnic on the ranch where he met and won Mrs. Dahlman. He obliged the photographers and newspaper men by pointing out the "popping spot," and described for them his courtship. Contemplating his trip to the ranch before leaving Omaha, he is reported to have mused aloud:

> It was back in 1883 when the girl who is now my wife came out into that country, which was wild in those days. . . . She . . . was a sight for sore eyes. I fell in love, fell hard. We used to ride horseback all over the ranch. I sure long to see again the ravines and nooks that we visited, and to pick out the spots where I popped the question. There are lots of them where "No" was the answer. But there is one spot—ah!—where she said "Yes." I am going to visit them all. [1]

"No wonder," said an editorial writer, commenting on the above, "that he has been mayor of Omaha since heck was a pup. How, gentle heaven, are you going to keep from voting for a man like that?"

NOT A CONSTRUCTIVE LEADER

What has Mayor Dahlman done for Omaha? His chief activities seem to be uttering messages of felicitation, delivering addresses of welcome, and presenting the keys of the city. In this he is somewhat versatile, and usually finds something pleasing to say. Seldom has he taken an agressive stand

[1] *The World Herald*, Omaha, Nebraska, August 21, 1926.

on any issue of public policy. True, he advocated home rule, the initiative, the referendum, the recall, and the commissioner type of government, but only after the popular demand for these reforms was evident. A short time ago he urged a forty-year extension of the street railway franchise. When this proposition was overwhelmingly defeated at the polls, he rather timidly suggested that perhaps the people wanted public ownership. He has furnished no constructive leadership either for the public or for those in the city's employ. Toward big business and organized vice he has adopted a policy of *laissez faire*. He bases his campaign arguments on the statement that he has "given the people what they wanted." Rather, he has allowed business interests to have what they wanted, and has hoaxed some of the people into believing that the public got what it wanted. He is given considerable credit for keeping the city tax rate low as compared with other cities of similar size.

There are gambling dens, houses of ill fame, and "blind pigs" (that are not so very "blind") in Omaha. They run without interference from the police, perhaps under their protection. The number is limited, however, for the vicious forces, commercially organized, are able to maintain an exclusive monopoly of these institutions. Any "outsider" who attempts to engage in illicit business is promptly arrested and dealt with to the full extent of the law. Why does the public remain indifferent? Surely the majority of the people of Omaha do not countenance such a condition. "There will always be a certain amount of vice in the city," they say. "It is better to have it held in check as it is today, even if that restraint comes from the underworld itself, than to have it run rampant and make the city more lawless than it is at present." They had one illustration of what could happen when the "ring" was "stepped upon." They want no more of that.

Mayor Dahlman is an old man now, seventy years of age. He is absent much of the time from his office because of illness. One wonders what changes will come when this unusual personage must step down and out.

The writer wishes to express his thanks to Dr. R. S. Boots, of the University of Pittsburgh, at whose suggestion and under whose direction this article has been prepared; to the librarian of *The Omaha World Herald* for the use of that newspaper's clipping files; and to numerous long-time residents of Omaha for valuable data and comments.

DUAL GOVERNMENT FOR METROPOLITAN REGIONS[1]

BY THOMAS H. REED
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Large cities are now the centers of wide metropolitan regions suffering from lack of a common government for their common needs. Outright annexation of suburban territory cannot be accomplished except by arbitrary action by the state legislature. A municipal government for the whole area organized on the borough plan promises to be the best solution. :: :: :: :: :: :: :: :: :: ::

THERE is no better way of approaching the problem of the government of metropolitan regions than from the experience of St. Louis. Fifty years ago the city of St. Louis was separated from the remainder of St. Louis county, and a consolidated city and county government erected within the city. This step was widely approved by municipal reformers. Its immediate effect was to reduce the cost of government within the city area through the compactness and simplicity of organization which the merging of city and county functions made possible. Numerous efforts were made to secure for other cities the obvious advantages which St. Louis, in this respect, enjoyed. That these efforts ended successfully in but one city, Denver, was due rather to the reluctance of county politicians to relinquish the perquisites of county office than to the existence of bona fide objections to the plan.

THE CHANGED ENVIRONMENT

And yet, there is grave reason to believe that St. Louis, with respect especially to its future development, would be better off today had it remained an integral part of St. Louis county with a predominant share in the determination of the policies of the county government. Truly the last half century has wrought a remarkable change in the relation of the city to its surrounding area. Fifty years ago there was a clear divergence of interest between the urban and rural portions of the then St. Louis county. They had some common problems but these were no more pressing than those which existed between any two contiguous counties in the state. The produce of the rural market gardens was sold in the city and the city stores in turn sold clothing and furniture to the country people. Such a relationship, however, called for no common local government. When the city and county were separated, their relations were sufficiently cared for by the fact that they both remained parts of the state of Missouri.

Fifty years ago the only means of rapid long distance transportation was the steam railroad. Along the steam railway lines leading out of St. Louis suburban communities had already sprung up, whose interests were more nearly connected with the great city than were those of the county at large. These communities, however, were small in size, few in number and separated from one another and St. Louis

[1] A paper read at the Thirty-second Annual Meeting of the National Municipal League at St. Louis.

by considerable distances. The bulk of St. Louis population went from their homes to their work places on horse cars or on foot. The inconvenience of distant dwelling places caused the city to grow with relative steadiness from its center, new streets and rows of houses being added near the edge of the area already built up. Although the transition from city to country was not so abrupt as in the case of many European cities because of our predisposition to separated single family dwellings, the one was distinct from the other and promised to remain so. It was, certainly, reasonable to suppose that such adjustments as the peripheral expansion of the city required could be made by piece-meal annexations.

This situation has been revolutionized by improved means of transportation. First, the electric tramways projected into hitherto unbuilt areas, or, supplementing existing steam railway service, with their low rates of fare made suburban residence possible for the masses. Then came the automobile, the paved highway and more and cheaper automobiles until today every one is on wheels. Thus aided, the city has spilled its population far and wide over the county. The city no longer grows like a tree in a succession of concentric rings but like a forest whose seeds, scattered by the wind, bring forth fresh groves in every favored spot. Here and there, with gaps of open country between, but at intervals frequent enough to determine the character of the whole area, are rapidly growing groups of population who are to all intents and purposes, city people. Industries, forced beyond the city limits by high property values, gather their work-people indiscriminately from the city and its suburbs. For it is no longer anything for a worker mounted in a certain sturdy but low-priced car to go ten or even twenty miles to his place of employment.

In these respects St. Louis differs from other metropolitan centers only in degree. Every word applied here to her conditions is just as applicable to Detroit or Pittsburgh. The problems created by this new principle of city growth are also everywhere much the same. Outside the city in unincorporated territory have sprung up resorts which pander to vice without the restraints of a vigorous police administration and about which congregate the bootlegger, the gambler and the pimp. In the shady and unlighted thoroughfares beyond the city boundary lurk the footpad and the auto bandit. In suburban communities without sewers or adequate health service, pestilence is bred which respects limits of municipal corporations no more than thieves discriminate between city and county citizens. Beyond the city, streets are laid out and other works and utilities erected hit or miss without regard to principles of sound general development. Great public necessities like water supply and sewers are held in abeyance because minor local authorities cannot agree on common action and lack the financial resources to carry through such works on their own account. These are a few of the problems which face metropolitan St. Louis and every other unorganized metropolis.

RECENT ST. LOUIS EFFORT SHOWS FUTILITY OF ANNEXATION METHOD

In attempting to solve this problem, as of 1926, St. Louis has just had an experience, not unique, but enlightening. Pursuant to an amendment to the state constitution adopted the previous year, there was created in the early summer of 1925, a board of eighteen freeholders, nine from the city and nine

from the country, to do one of three things:

1. To absorb the governments of St. Louis county in that of St. Louis city.

2. To put the city back into the county with a reorganization and consolidation of their respective functions.

3. To annex to the city a portion of the territory of the county.

The freeholders were thus greatly limited in their discretion as to the means by which consolidation was to be effected. After deadlocking to within thirty-two hours of the year allowed them to do the work, one county member consented to join with the nine city members for the purpose of submitting to the voters a form of the first alternative. If adopted, this proposal would have entirely merged the governments of the city, the county and all the subdivisions of the county into a single centralized city-county government. The only concession to the wide diversity of the territory sought to be included was a provision for a differential in taxation in favor of agricultural property. The proposal, however, met with bitter opposition in the county. This opposition was particularly strong in some of the suburban cities which had for some time enjoyed a vigorous, independent life. It was, as might have been expected, opposed by all the political elements in the county, but the opposition was by no means confined to this interested element. The opposition was much stronger than opposition to the separation of fifty years ago. The same spirit which animates the Allegheny County League of Boroughs and Townships, which led Berkeley, Alameda and other East Bay cities to reject consolidation with Oakland, and which keeps Highland Park out of Detroit and Brookline out of Boston, was rampant in the county of St. Louis. On October 26, 1926, the proposed consolidation scheme was decisively rejected by the voters of the county.

St. Louis' experience, therefore, suggests these conclusions, otherwise confirmed by general observation.

1. City and county separation is a useful expedient only where metropolitan conditions do not exist.

2. Pure and simple annexation on a large scale, as a means of solving the problem of metropolitan government, is sure to arouse the opposition of the suburban area.

There have been but two great municipal consolidations in the last thirty years, those of New York and Berlin. Each was an example of the arbitrary exercise of legislative power without reference to the wishes of the outlying communities consolidated. In each case some considerable recognition was given to the existence of special local interests in the various sections of the area of the greater city. New York preserved the identity of constituent communities, or groups of such communities, in its boroughs, made each borough a local center of administration and represented them as boroughs on the real governing body of the city, the Board of Estimate and Apportionment. Greater Berlin is divided into administrative districts, *Verwaltungsbezirke*, each with large administrative and a modicum of legislative power. Even these concessions to local sentiment would not have been sufficient to secure agreement to the consolidation on the part of the communities affected. St. Louis proposed no such concessions although the area covered by the proposed city and county is nearly twice that of Greater New York and more than half again that of Greater Berlin. If annexation be the solution of the metropolitan problem, it must be sought by way of the sovereign power of the

state regardless of local sentiment and the principle of home rule.

But there is strong ground for believing that pure and simple annexation as proposed for St. Louis is not the ideal formula for the solution of the metropolitan problem. The mere fact that no true metropolitan problem has ever been solved by pure and simple annexation is very suggestive. Chicago and Los Angeles acquired most of their vast areas in advance of the development of metropolitan conditions. The boundaries of the present administrative county of London were fixed at the time of the creation of the Metropolitan Board of Works in 1855. The preëxisting units were left untouched and the board itself was made up of representatives selected by their authorities. Paris was enlarged to its present size in 1859 by pure and simple annexation of the communes lying between what was then the boundary of the city and the recently erected fortifications. These communes, however, presented a continuous development from the old city of Paris and presented few of the phenomena of modern metropolitanism. The more recent enlargements of New York and Berlin have already been referred to. These instances present the total of attempts, other than purely abortive ones, to solve the metropolitan problem by annexation.

AD HOC COMMISSIONS INADEQUATE

In fact there have been actually employed but three methods of meeting the metropolitan problem:

First, and most commonly, authorities created *ad hoc* to deal with particular services essential to the metropolis.

Second, and very rarely, similar special authorities entrusted, however, with the care of several services.

Third, and also very rarely, the creation of super-cities in the organization of which some concession is made to local spirit by the creation of municipal divisions endowed with subordinate powers.

It would be extremely tedious to rehearse in this paper the experience of every community which has made use of one or the other of these methods. I may be pardoned, therefore, if I abbreviate the logical process and sum up my evidence without presenting it in detail.

The evidence of metropolitan experience in Europe and America may safely be said, I think, to support these conclusions:

1. *The creation of commissions "ad hoc" is at best a makeshift and falls far short of giving that coherent direction of metropolitan growth which is essential to sound development.* It is in Greater London, an area six times greater than that of the administrative county that the greatest reliance has been placed on *ad hoc* authorities. The Metropolitan Police District, the Metropolitan Water Board, the Thames and Lea Conservancy Boards, the Port of London Authority are the most important of them. It must be remembered too that the County Council cares for the main drainage of a considerable area outside its boundaries and that the Corporation of the City of London is the Port Sanitary Authority. The more imperious needs of Greater London are thus cared for after a fashion, but no one is satisfied with the situation except perhaps some of the larger boroughs and county boroughs within the area. The Royal Commission on London Government of 1923 conducted exhaustive hearings and collected an imposing body of criticism of the existing situation. There was, however, little or no agreement as to the remedy to be applied, so little, in fact, that the commission's work led to

no important concrete result. But the evils of a network of unharmonized authorities are spread *in extenso* over six volumes of evidence if you care to read them. The *banlieu* of Paris now rejoices in four intercommunal syndicates relating respectively to gas, water, electricity and the conduct of that part of funeral services which takes place outside the church—in France a communal monopoly. This last, which is of relatively small importance, dates from 1905 and today includes 46 of the 79 communes of the department of the Seine. Of the three significant syndicates, that of gas was founded in 1903. It includes 65 communes of the department of the Seine and 13 in Seine et Oise. The remaining two are very youthful, that for water having been created in 1923 and that for electricity in 1924. The water syndicate is the largest of all, embracing 134 communes in the departments of the Seine and Seine et Oise and four more in that of Seine et Marne. The electricity syndicate is made up of 62 communes all in the department of the Seine. None of these syndicates has gone further than to bargain collectively on behalf of the member communes with contractors who supply the service in relation to which the syndicate was created. Except for the activities of the department of the Seine in the matters of sewage, transportation, housing, etc., they constitute the only effort at coördination in the jumble of little communes which cluster round the "walls" of Paris. They represent, without doubt, a great advance over the almost total neglect of intercommunal interests which recently prevailed. There is no one, however, who contends that the problem of the *banlieu* can be solved by the multiplication of intercommunal syndicates.

It is obvious that if the needs of a metropolitan region are to be satisfied completely, it must be by some authority with jurisdiction broad enough to cover them all. In no other way can balance and coördination be secured. This requirement is at least partially answered by grouping several metropolitan functions under a single metropolitan commission. There is but one example of such a commission operating in a genuinely metropolitan area—the Massachusetts Metropolitan Commission. This body now has jurisdiction over the water supply of Boston and many adjacent cities and towns, the main drainage system of a similar but not identical group of towns, a remarkably extensive system of metropolitan parks, and metropolitan planning. It is not, properly speaking, however, a device of local government. Its members are appointed by the governor and it is really an agency of the state for the purpose of meeting certain needs common to several cities and towns. Its activities are in direct defiance of the principle of local self-government. In other words, the necessities of Metropolitan Boston are treated as a state affair. This fact is further emphasized by the recent creation of a special state commission to acquire the rights and construct the necessary works for an additional water supply for the metropolitan district.

A COMMON MUNICIPAL AUTHORITY NEEDED

2. *A strong municipal authority possessed of adequate powers and organized for the whole metropolis is the only permanently satisfactory provision for the satisfaction of metropolitan needs. Ad hoc* commissions are temporary makeshifts. If, on the other hand, powers, such as those of the Massachusetts Metropolitan Commission, were vested in a locally elected body, the district would *ipso facto* become a sort of super-

municipality. The area of the district, by whatever name called, be it county or region, would then constitute a new unit of local government which would be, within the scope of its specified powers, superior to the municipal units within it.

Direct state administration of regional needs may, as is the case in Massachusetts, produce admirable physical results and even give satisfaction to the public of the region. The principle of "local self-government," however, is more than a mere tenet of "political fundamentalism." If it be once granted that a region is a community, with interests affecting it as a whole which are distinct from the interests of the remainder of the state, there immediately arises a strong presumption in favor of allowing it to deal with these interests in its own way. If, as I shall endeavor to show, the region is but one unit in a new scheme of local government organization, this presumption becomes stronger. There is no way to self-government but by the practice of self-government. We cannot well have self-governing states without self-governing local communities. Hence our conclusion that there must be a self-governing municipal authority for the whole region.

This conclusion is supported by experience. The governments of Greater New York and of the Administrative County of London do not cover the whole of the respective metropolitan areas of New York and London. They do in each case, however, cover a considerable part of it and they were each formed by the union of numerous smaller units. Greater Berlin was organized in 1920 on a basis broad enough to include substantially the whole existing metropolitan area. There can be no doubt that the London County Council and the government of the city of New York, with none of their sins forgotten, actually provide in some measure for the orderly development of the area under their jurisdiction. The central authorities of *Gros Berlin* have in a few years' time rectified the worst of the abuses which characterized the old régime of suburban independence. The populous poor quarters are now getting the schools and the other services the rich districts alone enjoyed five years ago, and no one is found to complain except the officials of the old units now transferred to the service of the Administrative Districts into which the city is divided. Their pride and sense of power has suffered. Official character does not vary much between Charlottenberg and St. Louis county. The frog and puddle complex is universal. The people of every section of Berlin, however, are satisfied.

The advantages of a municipal government for the whole region are to be found: first, in a comprehensive treatment of regional problems, second, in economy of overhead, third, in the more definite fixation of responsibility. Numerous authorities operating in the same area are usually short in power and long in expense. In the complexity of their relations, the voter is lost and even our usual approximation of democratic control becomes difficult.

THE BOROUGH PLAN

3. *All such gigantic municipalities must be subdivided into boroughs or districts corresponding as nearly as may be with the preëxisting municipal units or suburbs of the present city.* The witnesses before the Royal Commission on London Government were unanimous in agreeing that "dualism" is absolutely essential in the government of so vast a municipal entity. There are three main reasons for it:

1. The diversity of the various portions of the metropolis requires *flexibility* in its governmental system.

Within such an area there are many questions which are purely local to its various divisions. These require, if they are to be answered to the best satisfaction of the people of the division, a divisional legislature or council.

2. The size of such a metropolis requires the establishment of local centers of administration. The people of a city of fifty thousand can, without hardship, betake themselves to a central city hall every time they have business with the city government. But in a Greater New York, Berlin, London, or even a Greater St. Louis, this would mean vast loss of time to the public, not to speak of the congestion in the city hall itself. If all the inspectors of every department must start from a central office each morning, half their time might easily be spent going to or coming from their jobs. Offices must be conveniently disposed for each of the more active departments in the several quarters of the city. Even centralized and concentrated Paris, much the smallest of modern great cities (19,279 acres), has its twenty arrondissements each with its *mairie* to which the young couples come for the ceremony of civil marriage, strangers to secure their *cartes d' identite*, property owners to file claims and declarations relative to direct taxes, the poor to make applications for relief. Here also births and deaths are recorded, the register of voters prepared, and those liable to military service enrolled. Although the boroughs of New York are not self-governing units, the borough hall is a true center of administrative activity. The *Verwaltungsbezirke* of Berlin possesses only a shadow of legislative power but they present an elaborate mechanism for the localization and popularization of city administration.

3. Except by the exercise of superior state authority, it is impossible to create metropolitan governments with wide powers unless ample concession be made to the sentiment of the communities united in the metropolis. We might discount the "bread and butter" talk of the office-holders and politicians affected, but with their bleatings tuned out there is a deafening chorus of opposition from the people of each established community proposed to be merged in a neighboring great city. To submit a proposition of pure and simple annexation to popular vote in the district to be annexed is to court almost inevitable defeat. Only very poor municipalities or bits of unorganized territory are ready to consider annexation. The alternatives left are state action or some kind of borough system.

The number and size of boroughs and the distribution of power between borough and metropolitan governments must necessarily vary from region to region. There are, however, some general considerations which must everywhere be borne in mind. There are sound reasons for the deconcentration of administrative functions. With regard to policy determination the case is not so simple. "Dualism" in metropolitan government does not of itself make for either economy or efficiency. It means more overhead expense than is required for a centralized city government. The experience of London, whose boroughs have more substantial power than those of any other great city, is peculiarly illuminating as to some of the difficulties which lie in the way of distributing powers between the central and divisional governments of a metropolis. The most significant of these difficulties are financial. Some London boroughs are rich and some poor. In general the poor boroughs are the most populous with correspondingly greater necessities in the way of sanitary inspection, street cleaning, poor relief, etc. Westminster, for example, with a ratable value of £8,326,-

120 has *141,578* inhabitants while Poplar with *162,578* inhabitants has a ratable value of *£942,936*. This means that Westminster has a low tax rate and Poplar a high tax rate, although the people of Westminster are much better able to pay high taxes than those of Poplar. In the effort to equalize somewhat the tax burdens of the boroughs, London finance has been involved into a state of complication which almost defies description, and with far short of satisfactory results. It would seem that to secure fair play there must be some form of central control of metropolitan finance. We may not have to go so far in this direction as has been done in the case of *Gros Berlin*. The council of each administrative district submits to the *magistrat* of the greater city, estimates of the needs of "those municipal arrangements and institutions which are intended primarily to secure the interests of the administrative districts." The *magistrat*, however, makes such use as it pleases of the data so furnished in preparing the annual budget which it submits to the council of the greater city, and not only is the amount of money to be devoted to the "arrangements and institutions" of each district settled in this budget, but it is settled there in such great detail as to leave little or no latitude in its expenditure to the district authorities. The district officials believe they should be entrusted with lump sum appropriations, but the city government is obdurate. It is possible, nevertheless, to conceive of a system in which the chief objects—the major elements in the tax rate would be under the control of the government of the metropolis while each borough would be left free to supplement the services thus provided with such borough luxuries as it thought it could afford. The actual distribution of powers in any metropolis must depend on the circumstances of that metropolis.

The borough, however, is not to be regarded as a necessary evil to be minimized to the greatest possible extent. There are sound reasons for perpetuating such small units of government as attach to themselves the loyalty of their people. Democracy as an institution depends for its success on the active interest of the people in government. On the whole that interest is declining before the competition of other calls—of business or pleasure—which the complex life of today thrusts upon us. Every influence, therefore, which promotes interest in government deserves encouragement. Every natural loyalty to places and institutions should be encouraged. For this reason the divisions of the metropolis should correspond as nearly as may be with the existing or natural divisions of the area. It is ordinarily desirable to combine small neighboring communities so that the boroughs need not be too diverse in size and financial ability. The greater, however, the concentration of financial *power* in the metropolitan government, the less important becomes equality of financial *ability* in the boroughs.

ABOLISH THE TOWNSHIP

One more aspect of the new local government relationships brought about by the growth of metropolitan regions must be considered before we can realize the full import of regional government. The phenomena of regionalism are not confined to great centers of population. The people of even small cities are now often scattered over miles of surrounding territory. The delights of country life and the advantages of cheap lands for industrial establishments have, there too, been made available by the omnipresent automobile. At the same time the

township, that artificial, quadrilateral namesake of a free Germanic institution, has become totally incapable of fulfilling the functions demanded of a rural local government. Good roads and other services cost too much for its limited financial ability and in all the territory west of the Alleghenies, it is passing just as the New England town and the old English parish are dying of progressive inanition. The county is now clearly the smallest possible unit of rural local government. Indeed, with good roads and automobiles the county is an area of less effective distances than the township was fifty years ago. The region, whether it centers upon a great city or a small city, or covers a rural area of common interest has been produced by the same transportational revolution which abolished the township. Why not be honest and recognize it? Our units of local government which developed during centuries of oxcart transportation, need recasting. Two major units below the state are not too many. As we slough off the township at the bottom, we may without unreasonable disturbance add the "region" at the top. Regional government embracing counties, cities and villages, and caring for the more general and more costly services, the way is open for making the larger cities counties, by themselves. To do so under existing circumstances is to unduly impoverish the rural part of the county. They are making no more county boroughs in England and are talking—no more as yet—of regionalism. Into the new scheme the metropolitan government which has been the subject of this paper fits without crease or crevice.

In closing let me say that I am no stickler for terminology. St. Louis county is in effect a region, as is Allegheny county, Pennsylvania. It is easier to deal with established units than to create new ones. The public are already accustomed to the idea that city or county government may be reformed. It would be folly, therefore, when reasonably satisfactory units lie ready at hand to hunt trouble by trying for scientific perfection in the delimitation of the region. I am sure I am expressing the hearty wish of every visiting delegate to this Convention when I say, "May you soon establish for St. Louis county a regional government of general powers adequate to regional needs." And, if, in the fulfillment of this aspiration, you find it necessary to concede something to the patriotism of suburban communities, you may comfort yourselves with the knowledge that world-wide experience supports the necessity for such concessions.

JUDICIAL DECISIONS

EDITED BY C. W. TOOKE

Professor of Law, Georgetown University

Initiative and Referendum—Necessity of Strict Compliance with Statute.—In *Carrier* v. *Board of Registrars* of Fitchburg, 153 N. E. 564, the Supreme Judicial Court of Massachusetts dismissed a petition for a writ of mandamus to compel the defendants to examine and certify an alleged referendum petition to submit a resolution of the common council to the electors. The charter provision required that such petition must be presented to the council "within twenty days after the final passage of any measure by the city council," and also that it shall be filed within the same time with the city clerk, the registrars of votes being required to submit their certificate of compliance with the statute within five days thereafter. The petition in the instant case seems to have been submitted to the council and to the city clerk on the twentieth day after the resolution passed the council and the eleventh day after its approval by the mayor.

The court, finding the statutory provisions mandatory, held that the twenty-day limit begins to run not from the date of approval by the mayor, but from the time the council acts, that the five days allowed for examination by the registrars is included in the twenty days and that in the instant case the registrars not having sufficient time within the limit allotted to examine the petition were justified in refusing to act. Accepting the construction of the court, it can be seen that the opponents of the resolution were left with less than six days after the approval by the mayor to prepare their petition and get the requisite number of signatures, a period palpably inadequate to make an effective appeal to the voters.

This decision illustrates how difficult it is to frame a practical referendum statute, which will stand the test of strict construction. The courts of several of our western states have met this difficulty by more liberal rules of construction of the statutes prescribing the methods of popular action in exercising the powers of initiative, referendum and recall, as indicated by such cases as *Kiernan* v. *Portland*, 57 Ore. 454, *State* v. *Houston*, 94 Neb. 445, and the recent case of *Magoon* v. *Heath*, 250 Pac. 583 (Cal. Dist. Court of Appeals, Bov. 1926), in which it was held that the court could not look beyond the certificate of the clerk, even though the fact was apparent that less than the required number of voters had signed the petition.

Home Rule—Limitations upon Local Powers.—In *Association of Master Bakers* v. *Milwaukee*, 210 N. W. 707, decided by the Supreme Court of Wisconsin, November nine, 1926, the court denied the power of the city to regulate bakeries by requiring them to take out licenses. While ordinarily such power would be implied from the express power to regulate, the statutory provision requiring all owners of bakeries in cities of over five thousand inhabitants to take out a state license negatives the implication of a like power in the city.

The limitations upon the home-rule powers of cities by state legislation covering certain fields is further illustrated by the recent decision of the New York Court of Appeals in *McCabe* v. *Board of Elections of New York City*, 153 N. E. 449, in which a local law of the city attempting to limit the power of the city officers to authorize an alteration of the terms of existing street railway franchises without the approval of the electors, was held void, upon the ground, among others, that its provisions would conflict with the powers given by statute to the state public utilities commission.

In *Coyne* v. *State*, 153 N. E. 876, the Court of Appeals for Cuyaboga County, Ohio, held that under the constitutional power of cities to adopt their own charters, no city could grant to itself power to establish a municipal court. The petitioner had been convicted of larceny by the municipal court of Cleveland Heights, which the city had attempted to establish under its charter-making powers. This case follows the decision of the supreme court in *State* v. *Hutsinpiller*, 112 O. St. 468, to the effect that constitutional description of inferior courts "as may be created by law from time to time" vests the exclusive

power to create such courts in the legislature of the state.

✻

School Districts—Extent of Power.—In *Security National Bank* v. *Bagley*, 210 N. W. 947, decided by the Supreme Court of Iowa, November 23, the petitioner sought to enjoin the school board of Mason City from installing a private copyrighted system of teaching thrift in the public schools. The board had authorized the system to be established without expense to the district, and its promoters had made a contract with a rival bank to act as depository of the funds collected. The court held that in addition to the subjects prescribed by statute to be taught in the public schools a large discretion is vested in the boards of education to adopt other courses, a discretion with the exercise of which the courts should not interfere. As the patronage of the pupils is entirely optional, the authorization of the use of the system in the schools is held to be a valid exercise of the power conferred. The propriety or expediency of committing the discharge of its duties to private individuals may well be questioned, but the court held that such questions are exclusively within the discretion of the board.

In *Stowell* v. *Prentiss*, 154 N. E. 120, the Supreme Court of Illinois holds that a school district cannot act as a trustee of a charitable trust not germane to the purpose of its incorporation. This case involved the conveyance of a spring to the district for the use of the public in general. The statute under which the district was organized empowered it to receive gifts of real property for the use of schools or libraries or other school purposes within their jurisdiction. The decision, denying a municipal corporation any implied capacity to administer a trust established for other than purposes of its incorporation, is in accord with the uniform rule.

✻

Construction of State Highways by Special Assessment—Coastal Highway Act of South Carolina Upheld.—In *Evans* v. *Beattie* (135 S. E. 538) the Supreme Court of South Carolina upheld the validity of the act of 1926, creating several counties a special highway district, directed to issue bonds for the construction of the coastal highway within their limits, to be paid in part by their proportion of the state gasoline tax, the balance to be collected by a general tax upon the property within the designated counties. This act was passed at the 1926 session of the legislature in response to a demand of the counties interested, who were unwilling to take advantage of the general statute known as the "pay-as-you-go" act, which authorized the construction of such highways as money was available from time to time.

In sustaining the statute, the court construes it as in effect creating a special assessment district, and imposing a tax by act of the state based upon special benefits and not in contravention of either the state or federal constitution (*Houck* v. *Little River Drainage District*, 239 U. S. 254). Hence it follows that the bonds authorized are not subject to the constitutional limitation upon the indebtedness of the constituent counties, that the assessment to be levied is not a general tax for public purposes and therefore its levy and collection by the designated officers are ministerial acts. The court thus adopts the rule that the legislature, when not restricted by the state constitution, may create a special tax district, fix the basis of tax or assessment, declare that the improvements authorized are for the benefit of property owners, and thus in the absence of facts showing such an abuse of power as to result in confiscation of particular property preclude any inquiry into the question of due process on the part of the owners of property affected. That no right under the federal constitution is violated is declared in a long line of decisions of the supreme court, which are reviewed and affirmed in *Kansas City Southern Ry. Co.* v. *Road Improvement District*, 266 U. S. 379. It is to be observed that the courts of many states do not sustain this extreme exercise of the power of taxation, but hold that the legislative power to impose special assessments directly or indirectly is subject to an inquiry as to benefits with due notice to the property owner and an opportunity to be heard.

PUBLIC UTILITIES

EDITED BY JOHN BAUER

Public Utility Consultant, New York City

THE PROBLEM OF EFFECTIVE PUBLIC UTILITY REGULATION

At the meeting of the American Economic Association at St. Louis, Missouri, December 28th–31st, there were two special conferences which have importance to persons interested in proper standards of public utility regulation: (1) Present-Day Corporation Problems, and (2) The Problem of Effective Public Utility Regulation. It seems desirable to present for this Department a survey of the more important points made by the leading speakers.

THE HOLDING COMPANY PROBLEM

The conference on Present-Day Labor Problems centered largely upon the "holding company," especially its development in the field of electric light and power. Practically every speaker admitted the economic service of the holding company as a device for large scale organization, and no one favored its abolition or serious interference with its development. But there was substantial agreement that its rapid extension has brought dangers which require study for proper control.

Dr. W. F. Gephart, of St. Louis, economist and banker, in the leading paper of the session flatly recommended federal incorporation with the object of facilitating federal control over all such activities as require public regulation. This view was supported by most of the other speakers. Professor Ruggles, of Ohio State University, and the writer brought out the point that federal regulation will prove unavoidable not only for the protection of the investors but to prevent evasion in rate regulation. The "holding companies" furnish capital and various services used in operation, but under present conditions, as interstate agencies escape the force of state regulation.

WHAT IS THE PROPER RATE BASE?

The second conference was organized and conducted by the writer. The subject matter centered around the problem of rate-making which has received repeated consideration in the REVIEW and especially in this Department,—and will require re-discussion until the public understands the problem and until sound and workable principles have been adopted.

The specific problem considered was "the rate base" which is best suited to an effective and financially sound system of regulation. As chairman, the writer briefly outlined the scope of the discussion which was to consider the usability of "present value" as established by the courts, compared with outright "reproduction cost" and "actual investment."

ACTUAL INVESTMENT PROPOSED

The task of rate-making has been practically unmanageable in the face of the large number of companies, the varying circumstances, and the shifting conditions of prices and other factors affecting the cost of service. Because of this general situation, the writer proposed that a definite rate base be adopted which will eliminate all disputes between the public and the companies, and at the same time provide for complete financial stability of the industries and the service to the public. To this end, he proposed the actual investment in the properties, which under proper accounting control would be a definite sum shown by the accounts and would thus furnish the commissions a constantly fixed measure of the return to which the company is entitled.

To adopt such a definite rate base would require positive legislation, which would provide directly for the desired rate-making policy and the necessary machinery for rate adjustments. In order to avoid probably successful opposition in the courts on the ground of confiscation, the writer proposed a differentiation between the investment in the existing properties and subsequent investment after appropriate legislation has been enacted. For the existing properties an initial valuation would settle, once for all, the amount in such properties for a future rate base. This amount would be taken upon the books and would remain unchanged except as additional investments are made.

INITIAL VALUATION NEEDED

Such an initial valuation would naturally involve compromise, and in many instances would require special adjustments for particular conditions affecting a company. It should, however, be based upon such a general rule of valuation which would reach the maximum of satisfactory results in all cases and would necessitate the minimum of adjustments in special circumstances. The rule suggested is the original cost of the properties used at the time of the valuation, less depreciation. This amount would represent the net remaining monetary investment in the properties; it would then be divided between investment made by bondholders and preferred stockholders, and investment made by common stockholders. The first would be left unchanged, while the contributions by the common stockholders would be increased in proportion to present higher prices compared with the level when the shares were issued. This adjustment would provide for the common stockholders roughly the same purchasing power of the return which they received at the time of the original issue, but it would allow no greater monetary return on the bonds and preferred stock investment, because in any event such security holders are limited by contract to fixed returns specified by their holdings.[1]

After such an initial valuation, with any desirable special adjustments, only actual additional investments would be added, and the entire amount would be maintained systematically through charges to operating expenses for maintenance and depreciation. This would place rate-making upon a definite basis.

POSSIBLE ECONOMIC DANGERS

This proposal, as briefly outlined for the conference, was first discussed by Professor Harry G. Brown, of the University of Missouri. Dr. Brown sharply disagreed with the entire underlying philosophy of the suggestion. His idea is that rate-making for public utilities, which are essentially monopolies, should be so arranged as to assure the public the same level of rates as would prevail if the service were rendered under competitive conditions. Unless this fundamental standard is followed, Brown argues, there would be dislocation of economic effort with the result of waste for the public at large. In competitive industry, if there has been a change in price level, the owners base their prices for the product upon the new level of costs, including a return upon the higher or lower reproduction cost of the properties. The same principle, he argues, should be followed in the utilities if proper regard is to be paid to underlying economic forces.[2] If rates are based upon reproduction cost the owners of the utilities would be compensated upon the same basis as owners in the other industries, and the consumers would pay for service on the same level as in competitive business. But if the actual investment basis were used, and if a great change in price level has taken place, there would be an inevitable dislocation of economic effort; an over-stimulated or retarded demand for service; and over-development or under-development of the properties; discrimination between industries and localities; all of which is waste in the aggregate for the public.

SUCH DANGERS NOT IMPORTANT

Professor Robert L. Hale, of Columbia University, expressed himself in substantial agreement with the proposed plan of a fixed rate base, and thought that Dr. Brown disregarded certain fundamental conditions in his support of reproduction cost. First, Brown seems to assume a general mobility of capital; that public utility capital may be readily shifted to other industries if the returns, after the investment has been made, are not readily adjusted according to changing prices or other conditions affecting competitive business. But the great bulk of the utility investments are truly *fixed capital* and cannot be shifted whatever changes in return may be obtained in other business. This is true especially of railroad land to which Brown devoted special attention, but applies also to other railroad and utility properties. Another point disregarded by Brown is that the actual cost or profits due to changing conditions and not to the efforts of the owners, are not avoided even in competitive business, but the hazard is placed upon individual owners who may be greatly benefited or greatly injured. In the utilities, however, which are particularly affected by a public interest and which are monopolistic in character,

[1] The plan discussed is presented in detail in "Effective Regulation of Public Utilities," Bauer, 1925, Macmillan Company. Certain aspects have been presented in various articles in the economic and other technical journals.

[2] Dr. Brown's real basis is the cost of the most economical plant that can be constructed at prices prevailing at the time rates are fixed. But for practical purposes, he considers reproduction cost a satisfactory equivalent.

all such costs or profits are properly spread over the community or public as a whole, and not left as a risk for the individual investors. The actual investment basis, therefore, in the last analysis is the best method of cost apportionment and risk distribution over the public at large.

Professor Clarence E. McNeill, of the University of Nebraska, further considered the question of possible economic dislocation that might follow when prices have greatly risen above or fallen below the investment level of the rate base. He pointed out particularly that the demand for all utility services is peculiarly inelastic, changing but little with substantial variation in rates charged for service, and presented statistical analyses from the various utilities.

LOW COST OF CAPITAL ASSURED

Professor J. C. Bonbright, of Columbia University, devoted himself especially to the financial aspects of the proposal as compared with reproduction cost. He considered particularly the cost of capital to the public, and the safeguards to the investors. His conclusion was that there can be no doubt that the actual investment basis, with a systematic machinery for prompt rate adjustments, would obtain capital at substantially lower cost to the public than would be possible under the reproduction cost; the investors would have much greater safeguards and, therefore, would be willing to furnish the necessary funds at a lower rate of return paid by the companies and the public. Moreover, he concluded that on the basis of Brown's real proposal, —not reproduction cost of the particular properties but the present cost of the most economical plant that might be constructed,—financing would be utterly unmanageable; no bankers would be willing to underwrite the issuance of securities on such a basis of return allowed to the companies.

The final speaker under the formal discussion was Professor Martin G. Glaeser, of the University of Wisconsin. He aligned himself in general with the actual investment basis as against the reproduction cost, but expressed misgivings as to the desirability of fixing a rigid plan of limiting returns to the companies. He feared the effect upon the efficiency of operation if no allowance is made in the returns for efficiency.

WOULD EFFICIENCY SUFFER?

The informal discussion was mostly, but not wholly, in agreement with the actual investment basis. Among some speakers, however, there was fear expressed as to the effect of fixed returns upon the efficiency of operation. A suggestion was made by Professor Ruggles that a grading might be made in the rate of return allowed to the companies according to the standards of efficiency.

In reply to Brown's point that falling prices would have the same effect of financial disorganization in competitive business as among utilities, pointed out that there are at least two great differences which would justify a difference in policy applied to the two situations. Assume a great fall in prices, and take shoes and electric light and power in a particular city. Some shoe producers have large bond issues outstanding and would suffer financial disorganization through the lower price level and reduced money returns. But other concerns have no bonds and would be in a position to increase production promptly to meet the changed conditions, so that the consumers would not face disorganization of production as a whole. But as to electric light and power, there is a monopoly and the company has a large bond issue; a receivership would impair the credit of the company and would result in disorganization of the service for many years. This is a general difference between utilities and competitive business, and warrants a difference in public policy; particularly since the machinery for such regulation is conveniently available for the utilities in practically all of the states, if only fairly simple changes are made in the rate base and rate-making machinery.

An important development was pointed out that the problem of the rate base has been shifted from more consideration of fairness to consumers, which has been mostly the ground of discussion heretofore, to the consideration of administrable methods, the financial and service stability of the industries, and the protection of the investors.

GOVERNMENTAL RESEARCH CONFERENCE NOTES

EDITED BY GEORGE H. McCAFFREY

Cincinnati Bureau of Municipal Research.—At the request of City Manager Sherrill and the department chief, the Bureau has made a study of the Cincinnati police force. C. B. Smith of the National Institute for Public Administration was engaged as consultant to do the detailed work. His report has been completed and turned over to the city officials, who are now studying it as a preliminary to conferences with the Bureau. It deals chiefly with patrol and detective bureau work, personnel, and records. It is particularly interesting because of the detailed plan for redistricting and assignment of beats and for the new system of examinations for appointment.

In response to an official resolution of the civil service commission, the Bureau has started a classification and standardization study for about 3,000 employees covering almost all the classified employees in the municipal service, the university and the board of education other than the teaching staff. This study is to be made by the Bureau in close coöperation with the commission, and the city is to pay the fees of all consultants.

The Bureau is now at work on an administrative code by request of the city manager. The recently adopted charter included, on the recommendation of the Bureau, a section which required the council to prepare such a code within six months after the charter was adopted. The code is to set up the departmental division and bureau organization of the municipal administration for offices not covered in the charter. An interesting feature of the code will be its comparative rigidity since it can be amended only by a three-fourths vote of the council. This would mean at present seven out of nine votes.

The city government has accepted the Bureau's recommendation on payroll procedure and the Bureau is now assisting in the installation of a system which provides for the use of checks, for payment on the job and consolidations of paymaster's offices.

The preliminary pension report prepared by the Bureau is now being actively discussed by public officers and the press, and conferences are being held to determine how far the city can go within its financial limitations.

The Bureau is also preparing a report on the desirability of using a municipal journal as the method of handling municipal advertising.

*

San Francisco Bureau of Governmental Research.—As a result of the vote on charter amendments at the November election, San Francisco's bonded debt limit of 15 per cent, all but Exposition bonds included, has been modified to a 12 per cent limit with all water bond issues, past and future, exempted. According to a Bureau report, San Francisco now has $39,330,000 bonds outstanding within the new limit, $50,600,000 of exempted bonds outstanding, and a leeway for other than water purposes of $51,470,000. The election also authorized the purchase or lease of an airport site by the city outside the city limits. Among the charter amendments defeated were proposals to establish a hospitalization system for municipal public utility employees, civil service for teachers, and increasing the salaries of the mayor and the board of supervisors.

The exemption of water bond issues from the debt limit makes it possible for the city immediately to vote bonds sufficient to complete the Hetch Hetchy water project and to purchase the privately-owned city distributing system on which the city has an option. The Bureau is making a study of the financial operation of the distributing system as a municipal utility.

The board of supervisors has just completed lengthy hearings on sixteen applications for a franchise to bridge, or bridge and tube, San Francisco Bay, and the Bureau will shortly issue a report on the factors involved in a bay crossing as brought out at the hearings. Besides the proposals for construction and operation of the project as a private enterprise, the supervisors have under consideration the selection of a site by the city and the calling for bids for construction either by private or public financing; while another proposition has been launched for the

state to construct the project as a unit of the state highway system to be paid for by tolls.

The Bureau is setting up complete monthly statements as to expenditure allowances and transfers of city budget accounts, and is compiling similar information on non-budget items and bond funds. The object is to bring about a better budget accounting procedure and to ward off over-expenditures and check the practice of budget account transfers. J. E. Donaldson, formerly of the Minneapolis Bureau of Municipal Research who recently joined the staff of the San Francisco Bureau, is undertaking the study.

George Althoen, Jr., who has been conducting the salary standardization studies of the Bureau, has resigned to take a position with a large motor car corporation.

Bridgeport (Conn.) Chamber of Commerce.—Thomas L. Hinckley, who was associated with the Training School for Public Service in 1911 and 1912, and who was at one time director of the Milwaukee Citizens' Bureau, is now assistant secretary of the Bridgeport, Conn., Chamber of Commerce.

Citizens' Research Institute of Canada.—The Institute has issued the first of the annual series, "Cost of Government in Canada, Story No. 1,—Municipal." This report gives figures for seventeen of the leading Canadian cities. Table I shows per capita assessment, taxes and debenture debt. Table II shows per capita municipal expenditure classified by main activities. The Cost of Government publications are in ever increasing demand from all over the Dominion, and a number of orders have been received from the United States. This series is, of course, of special interest to governmental officials and others engaged in the field of governmental administration.

Story No. 2, "Provincial," of the Cost of Government series is in course of preparation.

The first portion (Canadian cities) of the "Red Book," published annually by the Institute, is in course of preparation. The "Red Book" contains financial statistics of all Canadian provincial governments and all Canadian urban municipalities with over 400 population. From the "Red Book" can readily be obtained facts as to population, general debenture debt, annual value for taxation, taxes levied, tax levy unpaid, accumulated tax arrears, gross debenture debt, sinking funds, etc. The majority of the leading Canadian and a number of the American bond houses subscribe for the publication, as do the majority of the leading Canadian banks and insurance companies. As all figures contained in the "Red Book" are taken either from official reports of treasurer's signed statements, or both, to any firm dealing in Canadian bonds this publication is invaluable.

Toronto Bureau of Municipal Research.—The Bureau suffered a great loss through the death of John Macdonald, who had been its president since its inception, thirteen years ago. He has been succeeded by Walter J. Barr, and F. Barry Hayes has been elected chairman of the council and finance committee.

Two bulletins were issued by the Bureau in December. The first one dealt with the work of the Toronto board of education, and the second dealt with penalties for non-voters and also outlines the two questions to be voted on by the citizens at the recent municipal elections.

It is interesting to note that the committee appointed by the city council in 1926 to suggest improvements in the form of Toronto's government included in the suggestions many of those made by the Bureau.

The bulletin giving the personnel of the city government, 1927, is now in course of preparation, also one dealing with the voting at the last election.

A MODEL BOND LAW

Submitted by the
Committee on Municipal Borrowings
of the National Municipal League,
Mr. CARL H. PFORZHEIMER, *Chairman*

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THE COMMITTEE ON MUNICIPAL BORROWINGS

OF THE

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Detroit Bureau of Governmental Research.

FOREWORD

The Committee on Municipal Borrowings was appointed several years ago to consider the subject of incurrence of indebtedness by municipalities and other political subdivisions of the state. The original membership of the committee prepared, in 1921, a tentative draft of a model bond law, which was never finally acted upon. In 1924, at the request of the Governmental Research Conference, the committee was re-convened and additional members named, to include the representation of all possible interested groups. Sessions of the committee were held in New York City and, through *ad interim* correspondence and special conferences, all the provisions of the proposed draft of a law regulating the incurrence of debt were agreed to.

The increase in the range and extent of municipal activities, which has been manifested during recent years, has resulted in added demands for financing public improvement projects through the issuance of long-term securities. It has seemed advisable, therefore, to indicate to public officials a desirable procedure in the incurrence of such debt. This need is augmented by the fact that today the practice is varied in the several states, and the extent of statutory regulation is sometimes very limited. Further, the tendency toward change of personnel in public offices charged with responsibility for the public funds requires that a uniform and standard procedure among states be suggested.

It may be added that, in following a standard procedure in the issuance of securities, substantial economies will be effected by many municipalities. The buyers of such securities will be reinforced by the knowledge that a thoroughgoing and sound procedure, both legal and financial, has been followed, which will assure that the municipalities obtain necessary loans at the most favorable rates of interest.

The committee is under a heavy obligation to Mr. C. E. Rightor and Mr. John S. Rae of the Detroit Bureau of Governmental Research, who served as efficient secretaries to the committee and cheerfully prepared the successive tentative drafts of the law in accordance with the instructions of the committee.

Carl H. Pforzheimer, *Chairman.*

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INTRODUCTION

Taxpayers and public officials throughout the United States are giving more and more attention to the subject of bond issues. For what purposes shall our cities, counties, school districts and other political units be authorized to borrow money; what shall be the term of the bonds; what types of bonds shall be issued; what provision shall be made for advertising, for sale and for retirement? These and other fundamental questions must be considered and answered by every municipality, and a sound and conservative procedure will mean a maximum of economy to the taxpayers.

Municipal credit, especially for smaller localities, is a coöperative accomplishment. Improvident and unsound municipal borrowing in one part of a state reacts upon the market for the bonds of all municipalities within the state. A state-wide bond law designed to bring all localities to standard practice cannot, therefore, be considered in any wise as a violation of reasonable home rule power.

At present, there is a wide diversity of practice in the issuance of municipal bonds, owing to the latitude afforded by the great majority of our states. It is true that a handful of states, during recent years, have enacted thoroughgoing laws regulating the issuance of such securities, and the experience with existing legislation has been freely availed of in drafting the Model Bond Law.

We believe that a majority of the states will profit from a general revision of their laws on the issuance of bonds. The statutes of some contain provisions, originally designed probably to protect the credit of the city, which place their municipalities at great and unfair disadvantages in the market. Such measures should be repealed, and sensible protections should be adopted.

In the long run, the municipalities will find that the cheapest and easiest way to contract loans is to follow the methods set forth in this Model Law. Its principal features may be set forth as follows:

PROVISIONS SUMMARIZED

1. Bonds may be issued to pay for permanent improvements, including improvements the ultimate cost of which is to be locally assessed against the property benefited. Bonds to meet current expenses are forbidden.

2. The term of the bonds shall not exceed the probable life of the property or improvement acquired. For the better administration of this provision, the committee recommends that a definite schedule of the estimated periods of usefulness of the several classes of improvements be inserted in the act. The committee would leave to each state the preparation of its own schedule. For the convenience of readers the estimated periods of life of various classes of improvements, found in the bond laws of Michigan, New Jersey, North Carolina and Ohio, are printed in the Appendix.

3. Bonds shall not be issued except upon authorization by a three-fifths vote of the governing body, and all bond ordinances shall be published at least twice in a paper of local circulation. In the absence of a general referendum law, the committee believes that the bond law should provide that 10 or 15 per cent of the voters be empowered to order a referendum on any bond ordinance within thirty days after adoption.

4. A complete statement of the debt condition of a municipality shall be included in the bond ordinance. Among other things, this statement must include a financial report of the municipal enterprises which are financially self-sustaining.

5. Only serial bonds shall be issued, but provision is made by which the so-called serial annuity plan may be followed. Under this latter arrangement it is possible to so arrange the maturities that the sum of principal and interest issued each year shall be the same throughout the life of the bonds.

A minority of the committee believe that large cities with sound financial traditions should still be empowered to issue sinking fund bonds. Their dissenting opinion is set forth in a footnote on page 140. The majority, however, feel that sinking fund bonds present no advantages over the serial method at all commensurate with the evils and dangers of sinking fund administration.

6. Municipalities are permitted to sell their bonds at less than par, but not less than 95 per cent of par. There is often a material market advantage in being able to sell a bond at less than par. The important thing is not whether the city receives par or better for its bonds. The fundamental consideration is the rate which the city pays for its loan. The requirement that bonds must be sold at not less than par serves no useful purpose and may prevent the city from securing the best market rate.

7. The Model Law prescribes that sufficient taxes must be levied or other revenues provided to pay the bonds at their maturity. The state, through its auditor, is given supervision over the debt of every local political unit, and no municipal bond may be issued until the auditor has certified that the law has been observed in every respect.

This law has been drafted with the hope that it might prove of some assistance to state legislatures having to cope with this important problem and desiring to promote uniformity in legislation, and consequent economy for the taxpayers. If this object is accomplished the work of the committee will have been justified.

A MODEL BOND LAW

Section 1. Entitlement of act.—This act may be cited as "The Municipal Indebtedness Act of ....."

Section 2. Definitions.—In this act, "municipality" means and includes any city, township, incorporated village, county, school district, or other political subdivision in this state now or hereafter incorporated; "governing body" means the board or body in which the general legislative powers of a municipality are vested; "clerk" means the person occupying the position of clerk of a municipality; "financial officer" means the chief financial officer of a municipality; "funding bonds" means bonds issued to pay or extend the time of payment of indebtedness heretofore incurred, not evidenced by bonds; "publication" includes posting as authorized by this act as substitute for publication in a newspaper; "bond ordinance" means an ordinance authorizing the issuance of bonds of a municipality, or in cases where ordinances are not enacted, a resolution or other proper proceeding.

Section 3. Construction of act.—If any portion of this act shall be declared unconstitutional, the remainder shall stand, and the portion declared unconstitutional shall be rescinded.

Section 4. Application.—This act shall apply to all municipalities.

Temporary Loans[1]

Section 5. Loans in anticipation of bond sales.—At any time after a bond ordinance has taken effect as provided hereinafter, a municipality may borrow money for the purposes for which bonds are to be issued, in anticipation of the receipt of the proceeds of the sale of the bonds, and within the maximum authorized amount of the bond issue. Such loans shall be due and payable not later than three years after the time of taking effect of the ordinance authorizing the bonds upon which they are predicated.[2] But the limits of the life of the bonds, as hereinafter prescribed, shall be constructed to include the term of such temporary loan.

Section 6. Issuance of notes for temporary loans.—All bonds or notes issued in anticipation of a bond sale shall be signed by the financial officer, and the seal of the municipality shall be

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[1] It is considered that provisions for the financing for current purposes to meet appropriation expenditures should be incorporated in a separate act, preferably a budget act, thereby keeping the financing for current purposes distinct from the financing for capital purposes, and the instruments used named or classified distinctly so that outstanding obligations would not be confused.

In New Jersey, where this practice has been in use for nine years, it is found to work very satisfactorily. In this state, there is a uniform fiscal year concurrent with the calendar year. Taxes are paid in two installments, June 1 and December 1. The limitation for borrowing in anticipation of the day when taxes are due is 50 per cent of the amount to be raised by taxes. After June 1, municipalities and counties come into a new borrowing power, namely tax revenue notes, but only for the amount of the one-half of the taxes which were not collected. Tax anticipation notes are not permitted to stand after the close of the year or budget period. Indebtedness for current account running past the close of the budget period must be re-issued by tax revenue notes which cannot be in excess of the amount of delinquent taxes for that year and are identified "tax revenue notes 192—." Under this practice, inexperienced or new officials and the auditors can trace the outstanding indebtedness in a ready and definite way.

[2] It might be permitted municipalities to issue one-year notes, renewable for two years.

affixed and attested by the clerk. They shall be submitted to and approved by the attorney for the municipality before they are issued, and his written approval endorsed on the bonds or notes.[1]

Permanent Financing

Section 7. Purposes of bond issues.—A municipality may issue its bonds for any one or more of the following purposes:

(a) To pay for any general public improvement or property which it may lawfully construct or acquire; provided that no bonds shall be issued to pay for current expenses.

(b) To pay for any improvement the cost of which is to be assessed wholly or in part against abutting or benefiting property.

(c) To fund or refund an indebtedness outstanding at the time this act takes effect, for which inadequate provision for payment has been made.

(d) For any other purpose for which it is authorized by law to raise money, except for current expenses.

Section 8. Statements in ordinances authorizing bond issue.—All bonds of a municipality shall be authorized by an ordinance passed by the affirmative vote of at least three-fifths of the members of the governing body. The ordinance shall state:

(a) In brief and general terms the purpose or purposes of the bond issue.

(b) The maximum amount of money to be raised by the issue, and, if for more than one purpose, the maximum amount of money for each purpose.[2]

(c) The maximum rate of interest the bonds shall bear.

(d) The maximum period within which they shall mature, which must not exceed the period hereinafter set forth.

(e) That except for bonds issued under Section 7 (b), a tax sufficient to pay the principal of bonds falling due in the year and the interest of the bonds shall be annually levied and collected whenever necessary.

(f) That a certified current statement of the debt of the municipality, prepared by the financial officer, is on file with the clerk showing:

1. The total gross outstanding debt, by purposes.

2. (a) The amount of sinking funds or other funds held for payment of any part of the gross debt, by purposes.

(b) The amount of existing gross debt incurred for any enterprise owned by the municipality which during the fiscal year immediately preceding the date of the statement was entirely self-sustaining, by purposes; such statement shall include a financial report of the enterprise for the past year.

3. The total net debt (being the excess of 1 over 2 [a]).

4. The assessed valuation of property subject to taxation by the municipality, for the last three years.

5. The percentage that the net

[1] The committee wishes to call attention to the laxity with which municipalities in some instances have handled temporary loans, issuing bonds or notes without proper formality and without a record of the transaction. It is recommended that municipalities adopt a standard form for temporary loans, preferably upon financially controlled stationery, which will assure a permanent record of the indebtedness upon the city's books.

[2] It will be noted that Section 8 (b) provides that the maximum amount of money to be raised shall be stated, rather than the principal amount of bonds to be issued. This provision is made because it is impressed upon the committee that a municipality in fact buys money, which is a commodity varying in price from time to time, and permits the municipality to sell bonds at a discount as provided in Section 18.

debt bears to the average of the last three assessed valuations.

6. The difference between the total net debt and any existing legal limitations, by purposes.

7. The total of bonds authorized but not issued, by purposes.

8. The gross outstanding debt less the amount of sinking funds or other funds held for payment of any part of such gross debt of any district or other municipal corporation or subdivision, except a county, wholly or partly included within the bounds or limits of the municipality.

Section 9. Effective date of ordinance.—All bonding ordinances shall become effective thirty days after passage except in the case of funding and refunding bonds, and bonds issued in cases of emergency for the preservation of public peace, health, or safety, in which cases the ordinance shall take effect on its passage. All bonding ordinances except funding, refunding, and emergency bonds shall be subject to referendum as prescribed by law.[1]

Section 10. Time limits for actions against ordinance.—No right of action or defense founded upon the invalidity of the ordinance shall be asserted, nor shall the validity of the ordinance be open to question in any court upon any ground whatever, except in an action or proceeding commenced within thirty days after the adoption of the ordinance.

Section 11. Terms of bonds.—For determining Section 8 (d), the maximum period of issuance, bonds shall be issued for a period not to exceed the probable usefulness of the property or improvement for which the bonds are issued; but in no case shall bonds be issued for a longer period than forty years. The estimated period of usefulness shall be determined by a majority vote of the governing body of the municipality, and such determination shall be conclusive in any action or proceeding involving the validity of the bonds; provided that, in determining, for the purpose of this section, the probable period of the usefulness of an improvement on property, the governing body shall not deem said period to exceed the following periods for the following improvements and properties, respectively, viz.:[2]

(*Schedule of Estimated Periods of Usefulness to be inserted here*)————————

Bonds issued in anticipation of special assessments shall mature not later than two years from the time fixed for the payment of the several installments of the assessments from which the bonds are payable. Any municipality having notes or bonds outstanding at the passage of this act may extend the time of payment thereof by the issuance of refunding bonds, the amount which, however, shall not exceed the total of such outstanding notes or bonds less sinking funds available for payment thereof, and shall be payable as herein provided. The maturity of such refunding bonds shall be so fixed that the entire time elapsing from the issue of the original bonds to the final maturity of the refunding bonds shall not exceed the time allowed by this act for the maturity of bonds used for the purpose of the original issue; provided, that refunding bonds may be issued to mature over any period not exceeding ten

[1] In the absence of a general referendum law, it is suggested that, prior to the thirty days herein specified, by petition of, say, 10 or 15 per cent of the qualified voters, the ordinance should not become effective until an election was held thereon.

[2] At this point there should be inserted a definite schedule of the estimated periods of usefulness of the several classes of improvements to be acquired or constructed by a municipality. For purposes of illustration, the limitations set forth in certain states are presented as Appendix I.

years from the date this act takes effect, even though such maturity may exceed the limit hereinbefore fixed. When such bonds are not a general obligation of the city, the bonds shall so state upon their face.

Section 12. Publication of bond ordinances.—A bond ordinance shall be published in a paper of general circulation in the local municipality, not less than twice. A notice substantially in the following form (the blanks being first properly filled in), with the printed or written signature of the clerk appended thereto, shall be published with the ordinance:

> The foregoing ordinance was passed on the ..... day of ....., 19..., was first published (or posted) on the ..... day of 19.... Any process must be begun within thirty days after the first publication.

Section 13. The aggregate amount of money to be raised under a bond ordinance, the medium for payment of the bonds, the rate or rates of interest the bonds shall bear, and the times and place (or places),[1] within or without the state, of payment of the principal and interest of the bonds, shall be fixed by resolution of the governing body within the limitations prescribed by the ordinance. Such resolution shall be subject to amendment or repeal at any time prior to the sale of any bonds to be affected by such amendment or repeal. The bonds may be issued either all at one time or from time to time in blocks or installments, and different provisions may be made for different blocks or installments; provided, that the provision contained in Section 14 relative to maturities shall apply to each block or to the entire issue, in which case no bond shall be issued unless all bonds maturing prior thereto shall have been issued.

Section 14. Types of bonds and provision for payment.—No municipality shall borrow money or issue bonds or notes for the purposes herein specified except as provided in this act. The authorization of bonds by a municipality shall be deemed to be an appropriation of the maximum authorized amount of money to be raised for the purposes for which the bonds are to be issued. All bonds hereafter issued by any municipality shall mature in annual installments, and the first installment of principal shall fall due and be payable not later than two years after the date of issue; and the sum of the principal and interest due in any year after the first year shall not exceed the sum of the principal and interest due in any previous year by more than the denomination of a single bond issued.[2]

[1] In the opinion of a minority of the members of the committee, provision should be made for payment at two places, locally and at a recognized financial center.

[2] It is the opinion of some members of the committee that this section should be broadened to permit large municipalities in which there is a tradition of efficient financial administration to issue also sinking fund bonds. The straight serials, which are made obligatory by this section, may not leave enough latitude for the most intelligent financing, especially in connection with extensive city planning improvements, rapid transit, and other large public utilities. Accumulated sinking funds may be used legitimately by a municipality to free itself from the control of the money market, for a time at least, during times of stringency without injuring its standing or crippling its capital program. Where properly managed, this is desirable. Our knowledge of well-administered sinking funds leads us to believe that they are perfectly safe, especially when under state supervision, and that such funds can be managed to earn as much as the interest on the bonds which they are to retire. We wish to point out also that a sinking fund bond is no more expensive to the taxpayers than any other type of bond, and that there are times and places where a term bond will sell at a better price than a serial

Section 15. Resolution.—Bonds of a municipality shall be signed by two or more officers of the municipality holding office at the time of such signing, one of which officers shall be the mayor or other chief executive officer, or other officials designated by resolution of the legislative body, and the corporate seal of such municipality shall be affixed to the bonds.

Interest coupons attached to the bonds shall bear a facsimile signature of the financial officer. The delivery of bonds so executed shall be valid notwithstanding any change in the officers or in the seal of the municipality occurring after the signing and sealing of the bonds.

Section 16. Registered or coupon bonds.—Bonds issued under this act may be issued either in registered or coupon form. If they are coupon bonds, they may be made registerable either as to

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bond. The cost to a municipality for any loan is governed by the rate paid for the average time the municipality has the use of the funds, rather than the type of security evidencing the loan; and it is obvious that any municipality should borrow money for the shortest possible time in order to minimize the interest charges. It has always been a tendency in the early stages of fiscal reform to make too many restrictions, and to write into law some fiscal policy which, though entirely sound for the time being, does not make adequate allowance for a changing future. This is hardly necessary in the case of the larger municipalities where we may expect a certain degree of intelligence in financial administration.

In any sinking fund it is absolutely essential to fix the rate of accumulation. Whatever the rate may be, it should be one which may be earned over a long period of years and, therefore, should be a conservative one, preferably 4 per cent or less. The experience of cities in the state may guide in determining a reasonable rate. Fixing the rate automatically fixes the amount of the annual contribution, which remains the same throughout the life of the bond, and which, at a fixed rate of earning, depends only on two other factors, namely, the amount of the issue and the life of the issue. Furthermore, the amount which should be in the sinking fund for a given bond issue at the close of any fiscal period may be readily determined as it is a fixed amount. Fixing the rate of sinking fund earnings, therefore, not only makes it possible to determine exactly what the condition of a sinking fund is at any time, but also simplifies the sinking fund accounting to a very marked degree.

The sinking funds, their establishment and conduct, really should be considered as an independent subject of legislation, for the subject is a very important one and there is considerable ground to be covered. Such matters as the determination of the amount of the annual contribution, provision for the inclusion of this amount in the tax levy, the payment of the

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contribution to the sinking fund, legal investments of sinking funds, etc., must necessarily be considered and provided for. In addition, attention should be given to the cancellation or retirement of bonds before they become due and the adjustment of the sinking fund contribution, either annually or periodically, due to earnings in excess of the standard of accumulation.

Then again the question of deficits will necessarily arise, and provision should be made for making up the deficits in addition to the required contribution for those issues which are not deficient. A minimum contribution for deficits should be required, such minimum being based preferably upon the assessed valuation of the taxing district. The minimum rate in New Jersey is fixed at one-fifth of a mill on such valuations.

There are other matters which might be considered in this connection, but those here mentioned are the main points which should be embodied in sinking fund legislation.

The committee believes that it will be of value to cities to have a statement of the comparative costs of a sinking fund bond, a serial bond, and an annuity bond (the latter being also known as the level tax plan). Accordingly, the following tables have been compiled for these three classes of bonds, upon the basis of a $1.00 issue for 20 years, at varying rates of interest and the sinking fund to earn varying rates, presented as Appendix II.

JOHN A. FAIRLIE.
LUTHER GULICK.
JOHN S. RAE.
C. E. RIGHTOR.

principal only or as to both principal and interest. If they are registered bonds, they may be converted into coupon bonds. The governing body may also appoint a bank or trust company as registrar or transfer agent of the municipality and provide for the registration or transfer of bonds of the municipality by such registrar or transfer agent.

Section 17. Lost or destroyed bond.—When a bond has been lost or destroyed, a court of competent jurisdiction may order the issue of a new bond therefor on service of process upon the corporation and on reasonable notice by publication, and in any other way which the court may direct, to all persons interested, and upon satisfactory proof of such loss or destruction and upon the giving of a bond with sufficient surety to be approved by the court to protect the corporation or any person injured by the issue of the new bond from any liability or expense, which it or they may incur by reason of the original bond remaining outstanding. The court may also in its discretion order the payment of the corporation's reasonable costs and counsel fees. The issue of a new bond under an order of the court as provided in this section, shall not relieve the corporation from liability in damages to a person to whom the original bond has been or shall be transferred for value without notice of the proceedings or of the issuance of the new bond.

Section 18. Advertisement and sale.—All bonds of a municipality shall be sold by the governing body at not less than 95 per cent of par and accrued interest.[1] They shall be advertised and sold upon sealed proposals unless the sale be made to a sinking fund of the municipality. The trustees of the sinking fund shall not have the right to resell such bonds until the lapse of one year from the date of original purchase thereof. If no bids satisfactory to the governing body be received, the bonds may be sold at private sale, but no such private sale shall be made at a price less than the highest bid price which shall have been received, and if not so sold within thirty days must be again offered at public sale. Whenever bonds are to be sold pursuant to advertisement there shall be published, at least once in a newspaper having local circulation and in a recognized financial journal, a notice containing a description of the bonds to be sold, the manner and place of sale, and the time of sale, or time limit for the receipt of proposals which shall be not less than ten days after the first publication of the notice. The notice shall state that bidders must deposit with the financial officer before making their bids, or present with their bids, a certified check drawn to the order of the financial officer upon an incorporated bank or trust company, or a sum of money, for or in an amount equal to two per centum of the face amount of bonds bid for, to secure the

[1] In order to sell a bond carrying a rate of interest higher than the current value of money for long-term investment, a premium must be added to the price to reduce the net yield to such current value. As an inducement to the public to buy bonds at a premium, a net yield greater than the current rate of interest must be allowed. This net yield increases as the rate of interest on the bond increases over the current value of money.

Municipalities ordinarily issue bonds at a rate of interest expressed in quarters of one per cent, rather than the exact rate of interest of money at the time of the bond sale. If the value of long term money is 4.10 per cent, for example, a municipality may issue bonds carrying a rate of either 4.25 per cent or 4 per cent. In case of an issue at 4.25 per cent, the purchaser will pay a premium which brings the net yield to more than 4.10 per cent, and in case of an issue at 4 per cent, the purchaser receives a discount sufficient to bring the net yield to about 4.10 per cent.

municipality against any loss resulting from the failure of the bidder to comply with the terms of his bid. Proposals for bonds required to be advertised shall be opened in public and the bonds shall be awarded to the highest bidder complying with the terms of the sale, unless all bids are rejected. Any municipality shall have the right to reject all bids. The governing body may delegate its power to sell bonds to a committee thereof, or any two officers, one of whom shall be the financial officer, but every private sale of bonds shall be made or confirmed by the governing body.

Section 19. Application of proceeds of sale.—The proceeds of the sale of any bonds hereinafter issued, including the premium, shall be used for the purposes specified in the ordinance authorizing said bonds; provided, however, that if for any reason any part of the proceeds be not applied to or be not necessary for such purposes, such unexpended part of the proceeds shall be applied to the payment of the principal of said bonds. The cost of preparing, issuing, and marketing bonds shall be deemed to be one of the purposes for which the bonds are issued. Interest accruing on temporary loans for an improvement of property during the period of construction or acquisition of the improvement of property and within six months thereafter, shall be deemed to be part of the cost of such improvement or property and payable out of the proceeds of the sale of bonds issued therefor.

Section 20. Bonds incontestable thirty days from publication.—Any bonds reciting that they are issued pursuant to this act shall in any action or proceeding involving their validity be conclusively deemed to be fully authorized by this act and to have been issued, sold, executed, and delivered in conformity herewith, and with all other provisions of statutes applicable thereto, and shall be incontestable, anything herein or in other statutes to the contrary notwithstanding, unless such action or proceeding is begun within thirty days after the first publication of the bond ordinance.

Section 21. Tax for principal and interest.—The governing body shall levy and collect annually a tax sufficient to pay:

(1) the annual interest on all bonds;
(2) the principal of all serial bonds falling due during the current fiscal year;
(3) the annual sinking fund installment on all sinking fund bonds;

except in cases where other revenues are specifically available for those purposes.[1] The powers stated in this section in respect to the levy of taxes for the payment of the principal and interest of bonds heretofore or hereafter issued shall not be subject to any limitation prescribed by law upon the amount or rate of taxes which a municipality may levy.

Section 22. Supervision by the state.—It shall be the duty of the financial officer of every municipality in the state, within sixty days after this act

[1] Such exceptions might include, as examples, a tax levy for the principal and interest on bonds issued for revenue-producing enterprises, and on bonds issued in anticipation of the levy of special assessments.

As indicated in Note 8, while a definite rate of earning must be fixed for the sinking fund, it is obvious that the exact rate of earning cannot be anticipated. It is necessary that the annual tax levy for sinking fund purposes be adjusted to the actual rate of earning of the sinking fund. If the sinking fund earned more than the rate determined for it, the current tax levy should be credited with the surplus in the fund; if it earned less, the current tax levy should be charged with an amount sufficient to make up the deficit.

takes effect, and within thirty days after the close of each fiscal year thereafter, to file with the state auditor a sworn statement showing the dates of issuance, purposes, amounts and maturities of all bonds, notes, or other obligations outstanding, the assessed valuation of all taxable property in the municipality, the condition of all sinking funds and such other information as the state auditor may require. The state auditor shall keep a record of all bonds issued or redeemed by each municipality and of the conditions of their sinking funds and shall make an annual statement showing the amounts and maturities of bonds outstanding against each municipality and the amount of money and detailed description of all securities in the sinking funds for their payment.

Before any municipality shall issue any bonds, after ..... 19..., the officer having charge of its financial records shall transmit to the state auditor a sworn statement showing the dates of issuance, purposes, amounts and maturities of all bonds or other indebtedness outstanding, the assessed valuation of all taxable property in the municipality, the condition of all sinking funds, and such other information as the state auditor may require. The state auditor shall examine the same, and if he finds that the issuance of the proposed bonds will not be in violation of any of the provisions of this act and that they will not cause the debt of the municipality to exceed any constitutional, statutory or charter limitation, and that the amounts in all sinking funds comply with the provision of this act, he shall make a certificate to that effect and forward the same to the officer of the municipality from whom the statement was received. No bonds may be issued until such certificate has been made. The state auditor is hereby authorized to employ the necessary assistance to perform the duties hereby assigned to him.

Miscellaneous

Section 23. Passage and effect of ordinances.—Except as otherwise provided in this act, ordinances and resolutions passed pursuant thereto shall be passed in the manner provided for the passage of other ordinances and resolutions. In any municipality in which the acts of the governing body thereof involving the raising or expenditure of money are required by law to be approved by some other official board or officer of the municipality in order to make them effective, all ordinances and resolutions passed by the governing body under this act shall, unless they relate solely to elections held under this act, be so approved before they take effect.

Section 24. Action for enforcement of this act.—Any officer of a municipality or any one or more taxable inhabitants thereof, or any creditor to whom the municipality is indebted to an amount not less than one thousand dollars, may, within the periods of limitation prescribed by this and other acts, maintain an action or other proceeding against the municipality or any officer thereof to set aside or have declared invalid any illegal official act on the part of the municipality or its officers, or to prevent any such act, or to compel the municipality or its officers to comply with the provisions of this and other laws relating to the debt of the municipality. The court of the county or district in which the municipality is situated shall have jurisdiction to enforce by mandamus, injunction, or other appropriate remedy the provisions of this act and of said laws.

Section 25. Former laws superseded.—All acts and parts of acts, general or special, to the extent that they relate to the subject matter of this act, are

superseded by this act; provided, however, (a) that acts and proceedings heretofore done or taken by any municipality or the voters thereof or any board of officers thereof, pursuant to acts or parts of acts superseded by this act shall have the same force and effect as if done and taken pursuant to this act, and only subsequent proceedings shall be taken as provided in this act; provided further, (b) that in all cases where, pursuant to acts or parts of acts so superseded, an ordinance or resolution has been heretofore passed authorizing the issuance of the bonds or notes in accordance with the terms of such ordinance or resolution, and it shall not be necessary to pass the ordinance provided for in section nine of this act.

APPENDIX I

EXCERPTS FROM STATE LAWS SHOWING ESTIMATED PERIODS OF LIFE OF IMPROVEMENTS

Michigan.—"No bonds, except for subways or rapid transit or sewage disposal systems for cities, shall be issued for a longer time than thirty years, nor for a longer time than the estimated period of usefulness of the property or improvement for which the bonds are issued. The estimated period of usefulness shall be determined by a majority vote of the governing body of the municipality, and such determination shall be conclusive in any action or proceeding involving the validity of the bonds. Bonds for the purposes hereinafter specified shall not be issued for a longer time than the following, to wit:

"1. Bonds issued in anticipation of special assessments, two years from the time fixed by law for the payment of the several installments of the assessments from which the bonds are payable.

"2. Bonds for payment of judgments against the municipality and emergency bonds for relief from fire, flood or other calamity, five years.

"3. Bonds for the purchase of personal property other than material for permanent construction, machinery for public utilities or original furnishing and equipment of new buildings, ten years.

"4. Bonds for construction opening, widening or improvement of highways, streets or alleys, fifteen years."

New Jersey.—"The probable period of usefulness of any property or improvement shall not be deemed for the purpose of the declaration in the ordinance authorizing bonds to exceed the following number of years for the following classes of property or improvement or purpose:

"(A) The acquisition or construction or reconstruction of a sewer system (either sanitary or surface drainage, including purification or disposal plants) or any part thereof, or buildings, land or rights in land therefor, including or not including the original furnishing, or equipment, or machinery, or apparatus, or any or all of such items, forty years.

"(B) The acquisition or construction or reconstruction of gas systems or any part thereof, or buildings, land or rights in land therefor, including or not including the original furnishing, or equipment, or machinery, or apparatus, or any or all of such items, thirty years.

"(C) The acquisition or construction or reconstruction of water supply systems or any part thereof, or buildings, land or rights in land therefor, including or not including the original fur-

nishing, or equipment, or machinery, or apparatus, or any or all of such items, forty years.

"(D) The acquisition or construction or reconstruction of an electric light or power system, or any part thereof, or buildings, land or rights in land therefor, including or not including the original furnishing, or equipment, or machinery, or apparatus, or any or all of such items, twenty years.

"(E) The acquisition or construction or reconstruction of a plant for the incineration or disposal of ashes, or garbage, or refuse, or any part thereof, or buildings, land or rights in land therefor, including or not including the original furnishing, or equipment, or machinery, or apparatus, or any or all such items, ten years.

"(F) Acquiring land for public parks, whether including or not including a playground as part thereof, or the original improving and embellishing of the same, or constructing buildings therefor, or original furnishings or equipment, or machinery, or apparatus therefor, or any or all of such items, fifty years.

"(G) Acquiring land for playgrounds, whether including or not including original improving and embellishing of the same or constructing buildings therefor, or original furnishings, or equipment, or machinery, or apparatus therefor, or any or all of such items, shall mature in not exceeding thirty years.

"(H) Acquiring land not included in other subdivisions of this section (four), forty years.

"(I) The acquisition or construction of buildings not included in other subdivisions of this section four, whether including or not including the land therefor, or whether including or not including the original furnishings, or equipment, or machinery, or apparatus required for the purposes for which such buildings are to be used, if such buildings be:

"a. Of frame construction, that is, a building of which the exterior walls or a portion thereof shall be constructed of wood; or a building sheathed with boards and partially or entirely covered with four inches or less of masonry or with metal sheets, twenty years.

"b. Of non-fireproof construction, that is, a building the outer walls of which are constructed in accord with the specifications contained in clause (c) of this subdivision for a fireproof building, but which fail to conform with any of the other specifications for a fireproof building as defined in clause (c), thirty years.

"c. Of fireproof construction, that is, a building the walls of which are constructed of brick, stone, iron or hard incombustible materials, and in which there are no wood beams or lintels, and in which the floors, roofs, stair halls and public halls are built entirely of brick, stone, iron or other hard incombustible materials and in which no woodwork or other inflammable material is used in any of the partitions, floorings or ceilings; but this definition shall include a building in which there is used, elsewhere than in the stair halls, and entrance halls, wooden flooring on top of the fireproof floor, or wooden sleepers, wooden handrails and treads, if made of hard wood not less than two inches thick, forty years.

"(J) Construction of an addition or additions to buildings or for the reconstruction of buildings, if not included in any other subdivision of this section four, if the building to which such addition is made or to be reconstructed is a building:

"a. Of the character described in subdivision I, clause (a), fifteen years.

"b. Of the character described in subdivision I, clause (b), twenty years.

"c. Of the character described in subdivision I, clause (c), thirty years.

"(K) The construction or reconstruction of bridges (including retaining walls and approaches), of stone, concrete or iron construction, or of a combination of any or all of these materials, thirty years.

"(L) Constructing or reconstructing the pavement of roads, streets or highways, or widening such pavement, whether including or not including sidewalks, or curbs, or gutters, or drainage, if such pavement:

"a. Is constructed of sand and gravel, five years.

"b. Is of water-bound macadam or penetration process, ten years.

"c. Is of bituminous concrete construction, fifteen years.

"d. Is of blocks of any material or of sheet asphalt, laid on concrete foundation, twenty years.

"e. Is of concrete construction not less than six inches thick, twenty years.

"(M) The acquisition of land for roads, for streets or for highways, or eliminating curves, or grading, or any or all of such purposes, whether including or not including culverts, bridges, or retaining walls, or surface, or subsurface drainage, thirty years.

"(N) The construction of curbs, or sidewalks, or gutters of brick, stone or concrete, or for any or all of such purposes, ten years.

"(O) The installation of fire or police alarms, telegraph or telephone service, or other system of communication for municipal use, thirty years.

"(P) The purchase of fire engines, fire trucks, hose carts or other vehicles, for use in the fire department, or for ambulances, patrol or other vehicles for use by the police department, or vehicles for use in any other department for the municipality, or the use of municipal officials, ten years.

"(Q) The purchase of land for cemeteries, including or not including the improvement thereof, thirty years.

"(R) The construction of sewer, water, gas or other service connections from the service main in the street to the curb or property line, when said work is done by the municipality in connection with any permanent improvement of or in any street, five years.

"(S) The elimination of any grade crossing or crossings, or improvements in connection therewith, or for any part thereof, fifty years.

"(T) Equipment, apparatus or furnishing, not included in other subdivisions of this section four, ten years.

"(U) Any purpose or purposes not included in any of the foregoing subdivisions (A) to (T), inclusive, forty years."

North Carolina.—"In determining, for the purpose of this section, the probable period of the usefulness of an improvement or property, the governing body shall not deem said period to exceed the following periods for the following improvements and properties, respectively, viz.:

"a. Sewer systems (either sanitary or surface drainage), forty years.

"b. Water supply systems, or combined water and electric light systems, or combined water, electric light and power systems, forty years.

"c. Gas systems, thirty years.

"d. Electric light and power systems, separate or combined, thirty years.

"e. Plants for the incineration or disposal of ashes, or garbage, or refuse (other than sewage), twenty years.

"f. Public parks (including or not including a playground, as a part thereof, and any buildings thereon at the time of acquisition thereof, or to be erected thereon, with the proceeds of the bonds issued for such public parks), fifty years.

"g. Playgrounds, fifty years.

"h. Buildings for purposes not stated in this section, if they are:

"(1) Of fireproof construction, that is, a building the walls of which are constructed of brick, stone, iron, or other hard, incombustible materials, and in which there are no wood beams or lintels, and in which the floors, roofs, stair halls, and public halls are built entirely of brick, stone, iron, or other hard, incombustible materials, and in which no woodwork or other inflammable materials are used in any of the partitions, floorings, or ceiling (but the building shall be deemed to be of fireproof construction notwithstanding that elsewhere than in the stair halls and entrance halls there is wooden flooring on top of the fireproof floor, and that wooden sleepers are used, and that it contains wooden handrails and treads, made of hardwood, not less than two inches thick), forty years.

"(2) Of nonfireproof construction, that is, a building the outer walls of which are constructed of brick, stone, iron, or other hard, incombustible materials, but which in any other respect differs from a fireproof building as defined in this section, thirty years.

"(3) Of other construction, twenty years.

"i. Bridges and culverts (including retaining walls and approaches), forty years, unless constructed of wood, and in that case, ten years.

"j. Lands for purposes not stated in this section, fifty years.

"k. Constructing or reconstructing the surface of roads, streets, or highways, whether including or not including contemporaneous constructing or reconstructing of sidewalks, curbs, gutters, or drains, and whether including or not including grading, if such surface:

"(1) Is constructed of sand and gravel, five years.

"(2) Is of waterbound macadam or penetration process, ten years.

"(3) Is of bricks, blocks, sheet asphalt, bitulithic, or bituminous concrete, laid on a solid foundation, or is of concrete, twenty years.

"l. Land for roads, streets, highways, or sidewalks, or grading, or constructing or reconstructing culverts, or retaining walls, or surface, or subsurface drains, fifty years.

"m. Constructing sidewalks, curbs, or gutters of brick, stone, concrete, or other material of similar lasting character, twenty years.

"n. Installing fire or police alarms, telegraph or telephone service, or other system of communication for municipal use, thirty years.

"o. Fire engines, fire trucks, hose carts, ambulances, patrol wagons, or any vehicles for use in any department of the municipality, or for the use of municipal officials, ten years.

"p. Land for cemeteries, or the improvement thereof, thirty years.

"q. Constructing sewer, water, gas, or other service connections, from the service main in the street to the curb or property line, when the work is done by the municipality in connection with any permanent improvement of or in any street, ten years.

"r. The elimination of any grade crossing or crossings and improvements incident thereto, thirty years.

"s. Equipment, apparatus, or furnishings not included in the foregoing clauses of this subsection, ten years.

"t. Any improvement or property not included in other clauses of this subsection, forty years."

Ohio.—"The maturities of bonds issued by counties and other political subdivisions, including charter municipalities, shall not extend beyond the following limitations as specified in the following classification, the period to be measured from the date of the bonds.

"Bonds issued for—

"Class (a)—the acquisition of real estate or easements or other interests in

real estate, grade crossing elimination, and flood prevention, thirty years.

"Class (b)—the construction or improvement of fireproof buildings or other structures, widening of roads, highways, streets or alleys, general waterworks improvements, sanitary and storm sewers, sewage disposal works, and bridges, twenty-five years.

"Class (c)—the construction or improvement of non-fireproof buildings or other structure, electric light plant and equipment, police and fire alarm and telegraph systems, fifteen years.

"Class (d)—waterworks meters, fire apparatus, road rollers, furniture and furnishings, machinery in garbage disposal plant, landscape planting, playground apparatus, sidewalks, curbs, gutters, and the construction, reconstruction, resurfacing, grading, or drainage of roads, highways, streets, or alleys, ten years.

"Class (e)—motor vehicles other than fire apparatus, wagons and horses, bonds issued to pay judgments for personal injuries or other non-contractual obligations and also for defraying the expenses of an extraordinary epidemic of disease, five years.

"Class (f)—purposes not included in the foregoing classes, such number of years not exceeding thirty as is the estimated period of usefulness of the asset, improvement, or other purpose, such estimate to be made by the fiscal officer.

"Class (g)—a single bond issue for a purpose which includes two or more of the foregoing classes, the average number of years of usefulness as measured by the weighted average of the amounts proposed to be expended or said several classes in accordance with above table of maturities; such estimating and calculation of average to be made by the fiscal officer."

APPENDIX II

COMPARATIVE COST OF A $1.00, 4 PER CENT, 20-YEAR, BOND SOLD UPON A SINKING FUND, SERIAL, AND ANNUITY BASIS,—SINKING FUND ACCUMULATED AT 4 PER CENT ANNUALLY

Sinking Fund Bond

Year	Principal	Interest	Total
1	$.033582	$.04	$.073582
2	.033582	.04	.073582
3	.033582	.04	.073582
4	.033582	.04	.073582
5	.033582	.04	.073582
6	.033582	.04	.073582
7	.033582	.04	.073582
8	.033582	.04	.073582
9	.033582	.04	.073582
10	.033582	.04	.073582
11	.033582	.04	.073582
12	.033582	.04	.073582
13	.033582	.04	.073582
14	.033582	.04	.073582
15	.033582	.04	.073582
16	.033582	.04	.073582
17	.033582	.04	.073582
18	.033582	.04	.073582
19	.033582	.04	.073582
20	.033582	.04	.073582
Total	$.671640	$.80	$1.471640

Average life, 11.79 years.

Serial Bond

Year	Principal	Interest	Total
1	$.05	$.040	$.090
2	.05	.038	.088
3	.05	.036	.086
4	.05	.034	.084
5	.05	.032	.082
6	.05	.030	.080
7	.05	.028	.078
8	.05	.026	.076
9	.05	.024	.074
10	.05	.022	.072
11	.05	.020	.070
12	.05	.018	.068
13	.05	.016	.066
14	.05	.014	.064
15	.05	.012	.062
16	.05	.010	.060
17	.05	.008	.058
18	.05	.006	.056
19	.05	.004	.054
20	.05	.002	.052
Total	$1.00	$.420	$1.420

Average life, 10.5 years.

Annuity Bond

Year	Principal	Interest	Total
1	$.033582	$.040000	$.073582
2	.034925	.038657	.073582
3	.036322	.037260	.073582
4	.037775	.035807	.073582
5	.039286	.034296	.073582
6	.040857	.032724	.073581
7	.042492	.031090	.073582
8	.044191	.029390	.073581
9	.045959	.027623	.073582
10	.047797	.025784	.073581
11	.049709	.023873	.073582
12	.051698	.021884	.073582
13	.053765	.019816	.073581
14	.055916	.017666	.073582
15	.058153	.015429	.073582
16	.060479	.013103	.073582
17	.062898	.010684	.073582
18	.065414	.008168	.073582
19	.068030	.005551	.073581
20	.070752	.002830	.073582
Total	$1.000000	$.471635	$1.471635

Average life, 11.79 years.

COMPARATIVE COST OF A $1.00, 4 PER CENT, 18-YEAR, BOND SOLD UPON A SINKING FUND AND ANNUITY BASIS,—SINKING FUND ACCUMULATED AT 4 PER CENT ANNUALLY

Sinking Fund Bond

Year	Principal	Interest	Total
1	$.038993	$.04	$.078993
2	.038993	.04	.078993
3	.038993	.04	.078993
4	.038993	.04	.078993
5	.038993	.04	.078993
6	.038993	.04	.078993
7	.038993	.04	.078993
8	.038993	.04	.078993
9	.038993	.04	.078993
10	.038993	.04	.078993
11	.038993	.04	.078993
12	.038993	.04	.078993
13	.038993	.04	.078993
14	.038993	.04	.078993
15	.038993	.04	.078993
16	.038993	.04	.078993
17	.038993	.04	.078993
18	.038993	.04	.078993
Total	$.701874	$.72	$1.421874

Average life, 10.56 years.

Annuity Bond

Year	Principal	Interest	Total
1	$.038993	$.040000	$.078993
2	.040553	.038440	.078993
3	.042175	.036818	.078993
4	.043862	.035131	.078993
5	.045617	.033377	.078994
6	.047441	.031552	.078993
7	.049339	.029654	.078993
8	.051312	.027681	.078993
9	.053365	.025628	.078993
10	.055500	.023494	.078994
11	.057720	.021274	.078994
12	.060028	.018966	.078994
13	.062430	.016564	.078994
14	.064927	.014067	.078994
15	.067524	.011470	.078994
16	.070225	.008769	.078994
17	.073034	.005960	.078994
18	.075955	.003038	.078993
Total	$1.000000	$.421883	$1.421883

Average life, 10.56 years.

The foregoing tables show the comparative cost of a $1.00, 4 per cent, bond issue, for the three types of bonds. If the sinking fund earns the same rate of interest as the bonds carry, the difference in cost is dependent upon the average life of the bonds,—*i.e.*, upon the average time the borrower has the use of the principal.

Summarized, the tables show as follows:

Type of Bond	Term	Cost	Average Life (years)
Serial	20-year	$0.420000	10.50
Annuity	20-year	.471635	11.79
Sinking Fund	20-year	.471635	11.79
Annuity	18-year	.421883	10.56
Sinking Fund	18-year	.421883	10.56

In issuing bonds, consideration should be given not alone to the market price of money for long-term investment, but to the prevailing rates of interest for the different types for different periods.